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# **THE DISAM JOURNAL OF INTERNATIONAL SECURITY ASSISTANCE MANAGEMENT**

*Before highlighting the areas of interest in this issue of the Journal, I want to thank everyone for the warm welcome we have received since arriving at Wright-Patterson AFB. The folks here immediately made Victoria and me feel a part of the DISAM family. Moreover, additional plaudits regarding the organization have come from throughout the community – a reminder of the close ties needed as we all play those varied roles within security assistance. We are excited to have this opportunity to continue to serve on the team.*

*As in every issue, we have something for everyone. We begin featuring security assistance in Slovenia. The country, which only ten years ago was part of Yugoslavia is moving quite successfully from socialism to a free market economy. Using a variety of security assistance tools, with IMET as a key ingredient, the development of the Slovenian Defense Forces and U.S. foreign policy objectives are both being furthered. Stability has been enhanced in what has been a crisis-ridden area of the world.*

*The events of September 11 focused comments at the annual DSCA Conference which kicked off barely two weeks later. While the next issue of the DISAM Journal will provide more details on initiatives addressed there, this issue will outline them. We also bring you excerpts of Congressman Henry Hyde's address to the conference – noting the "agenda has been set for us."*

*Articles extracted from reports outlining arms transfers over most of the last decade and delving into the subject of offsets and their value, complexity and trends are included. You can read about the customer support successes of the Navy in the transport tracking of repair and return material and eBusiness as well as get a rundown of the Naval Aviation Foreign Military Sales Logistics Conference held this past July.*

*Training rounds out the field with process-oriented coverage of Electronic Case Coordination and Tracking and the transition of the International Programs Security Requirements Course (IPSRC) from the Office of the Deputy Under Secretary of Defense for Policy Support (ODUSD(PS)) to DISAM. The process became the practical as DISAM Mobile Education Teams went on the road to Poland and Albania.*

*Since our previous issue, we saw additional turnover within the community as A. Robert "Bob" Keltz retired after serving almost three years as the Deputy Director of DSCA. Richard J. Millies, most recently Director of Policy in the Office of the Deputy Undersecretary of the Air Force for International Affairs, was named Deputy Director on August 23, 2001, assuming those duties in September. Similarly, DIILS (The Defense Institute of International Legal Studies) welcomed their new director Colonel Richard A.B. Price, assuming the position previously held by Commander Burton J. "Buzz" Waltman. Commander Waltman served a little over two years as the DIILS Director, and continues in the academic environment as he moves on to teach at the Naval War College. Colonel Price came to DIILS after serving as Deputy Staff Judge Advocate at Headquarters USAFE, Ramstein Air Base, Germany. Best wishes to all, and a hearty welcome to Mr. Millies and Colonel Price!*



**RONALD H. REYNOLDS**  
Commandant

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## ***FEATURE ARTICLES***

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### **Slovenia - Ten Years After Independence**

**By**

**Lieutenant Colonel Kelly Ziccarello, USA  
U.S. Office of Defense Cooperation, Slovenia**

Slovenia, never to be confused with Slovakia, came to the attention of the world in June 2001, as it played host to the first summit meeting between United States President George W. Bush and Russian President Vladimir Putin. Most Americans had to go to their world maps to pinpoint its location, surrounded by Italy to the west, Austria to the north, Hungary to the east and Croatia to the south. Yet those who search out the unusual, the less crowded, less expensive destinations in their travels, have long known the secrets of Slovenia. From its small but picturesque Adriatic coastline in the west to its northern Alpine region dominated by Mount Triglav (2864 meters), and to the east and south to reach more rural areas filled with beautiful river valleys, thermal springs, countless medieval castles and warm hospitality, Slovenia is indeed a country which blends the best of several European cultures into one uniquely its own.



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With its own way of life, its own language and serving as a natural crossroads of routes from east to west and north to south, Slovenia took her first steps towards overcoming a history of repression by the Hapsburg Empire, and later Tito's Yugoslavia, in December 1990, when Slovenes voted overwhelmingly for complete independence. In March 1991 Slovenia adopted a moratorium on sending conscripts to the Yugoslav Army. Armed confrontations started June 27, 1991, but by July 7 the conflict was officially over, and shortly thereafter Slovenia had control of its own borders and introduced its own currency. As the remaining former Yugoslavia drew the world's attention with its splintering ethnic violence, Slovenia, always the most ethnically homogeneous, the wealthiest, as well as the most Western-oriented among the republics, steadily, and very peacefully, went its own way.

### **The Slovene Armed Forces**

Ten years ago, even before their independence was officially won, the first generation of Slovene conscripts began their national military service in the territory defense forces (TDF) by starting training in Slovene centers using the Slovene language. After their short, but intense, successful bid for independence from Yugoslavia, the TDF was restructured into what is today the Slovene Armed Forces (SAF). The TDF still exists as a civil defense force and as early as 1997 was able to deploy a small number of forces abroad in their first peacekeeping mission to Cyprus. Since then, Slovenia has also deployed forces to support North Atlantic Treaty Organization Stabilization Force and Kosovo North Atlantic Treaty Organization Force, and maintains a robust level of participation in various bilateral and multinational exercises.

Ongoing reorganization efforts within the SAF are trying to reduce overall force numbers while raising the number of professional soldiers in the force, especially to fill out those units designated as the reaction forces which would also support international operations, primarily the 10th and 20th Motorized Battalions of the 1st Brigade. U.S. Army War College and Command and General Staff Officer College graduates coincidentally command the 1st Brigade and the 10th Battalion respectively. The total number of forces today comprises about 47,000, the majority of them reserve forces and conscripts, with nearly 5,000 professional soldiers. About 7,000 conscripts are accessed each year for a seven-month service period. The SAF is primarily an infantry based force, with a small but highly effective, professional Air Force. Organized into two Land Forces Commands plus the Air Force and Air Defense Command, the SAF's 1st Brigade is independent and includes the majority of professional soldiers.

### **Slovenia's Security Assistance Programs**

Slovenia now stands at a critical point in its integration into Western institutions. Viewed as the lead contender for European Union (E.U.) membership, and membership in the North Atlantic Treaty Organization (NATO) aspirant nations, Slovenia has also come a long way as security assistance customer. Shortly after a determination of eligibility for foreign military sales transactions in 1996, and the initial allotment of the Warsaw Initiative, foreign military financing (FMF) totaling \$400,000, a security assistance office was opened. One U.S. Army officer is responsible for all programs. Previously, the Defense Attaché Office in Vienna handled the few international military education and training (IMET) students trained between 1993 and 1996.

Five years later, Slovenia enjoys a robust IMET budget of \$800,000 for fiscal year 2002, which meets their requirements, and is projected to receive nearly \$3.5 million in FMF for fiscal year 2002. Slovene decision makers in the Ministry of Defense have matured greatly in their selection of projects for funding thru FMF, as well as in the level of detail they demand in their Letters of Request (LOR). The United States representation has grown as well, with our office now officially an "Office of Defense Cooperation" with one lieutenant colonel and two Slovene nationals authorized. New LORs are almost exclusively aimed at increasing NATO compatibility and interoperability. Requests include NATO-compatible radios and identification friend or foe

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equipment for the helicopter forces, an aggressive, ongoing English language training program, and future plans for increases in the area of command, control, communications, computers, and intelligence (C4I) increased unit training through simulations.

Challenges remain, and the ones we encounter in day-to-day operations are surely similar to those seen by other small ODCs in European Command (EUCOM) and elsewhere. The Slovenia training manager, Irena Cufar, describes in her article the never-ending struggle to come up with qualified candidates for training when dealing with the Slovene Armed Forces whose total number of professional service members does not exceed 5000. This already small pool of potential IMET candidates is further reduced by English language requirements. Slovenian Armed Forces personnel in general have a very high English capability, due in part to mandatory English in primary schools. Slovenia still has a conscript-based force, and will have for many years to come. This, combined with a still-developing noncommissioned officer corps, means that the majority of IMET students are officers and Ministry of Defense (MOD) civilians. Thus the focus of the IMET program in Slovenia is consistently professional military education and expanded international military education and training program resource management courses. We hope to slightly reverse this trend in coming years with a slow but steady increase in technical training and noncommissioned officer leadership development courses.

Foreign military sales activity also stays at a fairly small, yet constant level. A lead participant in the regional airspace initiative going back to 1996, Slovenia used its own funds to acquire the air sovereignty operations center from the U.S. via FMS. Otherwise, the bulk of FMS activity has been through grant funds from the Warsaw Initiative Fund, in small yet still important areas:

- English language training using a combination of contract teachers and language labs;
- Defense Language Institute English Language Center instructors in Slovenia were certified as a NATO-Partners for Peace training center just last year;
- A simulations center judged among the best in the region;
- Weapons simulators;
- NATO compatible communications equipment for aircraft;
- Various small computer purchases to improve automation capability.

Although usually judged to have the strongest economy among the developing democracies of central and eastern Europe, well ahead of regional neighbors in average annual income, the gross domestic product (GDP) growth rates, and other economic indicators, Slovenia's share of GDP spent on defense reached just 1.45 percent in 2001, and budgets approved for 2002 do not show the growth hoped for by U.S. and NATO in defense spending. As a result, direct purchases have not reached particularly high levels, with a few exceptions when the government made special funds available to the MOD specifically for outfitting the SAF. The most notable among these was the recent purchase for armored high mobility multipurpose wheeled vehicles intended for reaction forces.

## **Conclusion**

Slovenia has indeed come a long way in just a few short years. Hampered at times over the last few years by too-frequent changes in government, always democratic but very frustrating to defense planners, the current government coalition is stable, and should allow reorganization



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plans to reach fruition and for more constancy in policy. Meanwhile, ODC Slovenia will continue to play an important role in the U.S.-Slovenia defense relationship.

### **About the Author**

Lieutenant Colonel Kelly Ziccarello is a 1984 graduate of the U.S. Military Academy at West Point. She was commissioned in the Military Intelligence Branch and designated a European foreign area officer. In 1996 she received a master's degree in international public policy from the John Hopkins School of Advanced International Studies. From 1996 through 1997 she trained in the Polish language and spent one year of study at Poland's National Defense Academy. Kelly is a 2000 graduate of the U.S. Army Command and General Staff College.

**Triglav, the highest Slovenian mountain (9394 feet), gets over 25 feet of snow.**



**An alpine nation known for its mountains and skiing.**

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# **International Military Education and Training Program The Slovenia Experience**

**By**

**Irena Cufar  
U.S. Office of Defense Cooperation, Slovenia**

## **Introduction**

The Republic of Slovenia, independent since June 25, 1991, is situated at the juncture of four major European regions: the Alps, Hungarian plain, Karst and Mediterranean. It occupies an area slightly larger than New Jersey, and borders Austria, Hungary, Croatia and Italy. Its capital is Ljubljana, which is also the largest city in the country of two million people.

**The heart of  
Ljubljana, the capital  
of Slovenia.**



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Between the end of the World War I and 1991, Slovenia was one of the six republics of Yugoslavia. When it declared its independence, after a national referendum, the Serbian-dominated government ordered the Yugoslavian National Army (JNA) to keep Slovenia in line. The plan was for the JNA to take over the border crossings to cut Slovenia off from the rest of the world, disarm the territorial defense force (a predecessor of the Slovene Armed Forces) and force the Slovenian government to abandon all activities aimed at establishing an independent and sovereign state.

Some brief fighting took place in which the people of Slovenia showed that they stood by their decision firmly and were ready and willing to defend it. The territorial defense force (TDF) and police won the battle for the border crossings, stopped deployment of the JNA, and blocked their barracks to cut them off from supplies. After the “ten-day war” and subsequent peace declaration, the last JNA soldier left Slovenia in October of 1991. Unlike Croatia, Bosnia and Herzegovina, Serbia and recently Macedonia, Slovenia was able to maintain a peaceful status.

Slovenia is nowadays one of the most successful countries in transition from socialism to a market economy. It boasts a stable growth of gross domestic product per capita of \$10,078 in 1999, and ranks among the countries with the lowest degree of risk for international investment.

Slovenia is a parliamentary democracy, and its constitution dates to December 1991. The head of state is president of the republic, elected every five years, for a maximum of two five-year terms. The president is commander-in-chief of the Slovenian armed forces. The current president, Milan Kucan, was elected in November 1997 for the second time. The legislative authority is the national assembly (parliament) with ninety deputies. The executive branch is the government appointed by the national assembly. Slovenia had its third parliamentary elections since independence on October 15, 2000. A political party, Liberal Democracy of Slovenia, which has shared power much of the time since Slovenia’s independence, won again. The current government is a coalition of the aforementioned Liberal Democracy, United List of Social Democrats and two other small parties.

The main Slovenian foreign policy goal is integration into the European Union and North Atlantic Treaty Organization (NATO). Although widely considered to be a first round candidate for NATO expansion, Slovenia was passed over for membership during the July 1997 Madrid Summit. It still has a reasonable chance of being invited to join NATO, however, if further expansion rounds occur at the planned NATO summit in 2002. If the membership in NATO is still somewhat uncertain, it is just a question of time until Slovenia becomes a member of the European Union. There are ongoing negotiations and a harmonizing of Slovenian legislative, political and economic systems with the European Union. The European Union will start accepting new members after 2002 and the intention of the Slovenian government is to be among the first to gain full membership.

### **Slovene Armed Forces**

The beginning of the Slovene Armed Forces (SAF) coincides with the beginning of Slovenia as a sovereign state. The Slovenian military tradition, however, goes back to the 7th century, to Carinthia, the first Slovenian state. The roots of SAF lie in the territorial defense force established in 1968. The TDF was a constituent part of the Yugoslavian National Army. It was established after the aggression of Warsaw Treaty members against Czechoslovakia, which was a clear sign to the Yugoslav political and military leaders that Yugoslavia needed stronger and more efficient armed forces. In Slovenia the commanding language was Slovene, while in the Yugoslavian National Army it was Serbo-Croatian. Over the years however it became more and more obvious that Serbia’s ambition was to rule over all Yugoslavia and subsequently the distrust of the Slovenian TDF grew, culminating with the first democratic elections in 1990 in which the

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opposition won. Shortly after the Yugoslav government issued an order to the Slovenian TDF to disarm, only a few commanders obeyed it. On the contrary, the development of the Slovenian TDF was accelerated and together with the police troops it played a crucial role in the ten-day war for independence.

The basic mission of the Slovene Armed Forces is primarily to deter a possible enemy from an armed intervention against Slovenia and, secondly, to defend the country. By taking an active role in peace support and other multinational activities, the SAF contributes to the security and stability of the region.

Command and control principles of the Slovene Armed Forces are determined by the constitution and the defense law. The president of the Republic of Slovenia is the commander-in-chief of the Slovene Armed Forces. The minister of defense, who is civilian, tasks the Chief of the General Staff and through him the unit commanders execute the orders.

The Slovene Armed Forces are not divided into separate military services but are unified. Service in the SAF is based upon conscription. The SAF is currently engaged in a far-reaching reorganization that includes a significant restructuring of the peacetime and wartime personnel composition of the force, which is in accordance with Slovenia's strategy of approaching NATO. The program is to be completed by 2010. The final goal is a small, yet well armed, trained and highly effective, mainly professional, armed force. As a part of the planned reorganization, the number of conscripts will gradually decrease from 9,000 conscripts per year to approximately 3,000. However, the personnel component consisting of professional soldiers will rise from the current level of 4,650 to 11,000. The wartime strength is programmed to drop from the current 57,000 to about 33,000.

### **United States Foreign Policy Objectives in Slovenia**

From a regional perspective, bilateral relations between the United States and Slovenia are key. The Balkans has proven to be a contentious region for over a decade and as a peaceful middle-income democracy, Slovenia is a stabilizing factor in this crisis-ridden area. The United States seeks to encourage Slovenia's continued political and economic transition to a full-fledged Euro-Atlantic partner. As a partner, Slovenia serves as a bridge between East and West, and plays a central role in exporting peace and stability to southern Europe. Slovenia's major advantage in promoting peace in this area is that its military and civilian officials are familiar with the cultural, historical, social, political, and geographical foundations of all the countries of the former Yugoslavia. Undoubted evidence is the fact that Slovenia was chosen as the site of the first meeting between United States President George W. Bush and Russian President Vladimir Putin.

The primary objectives of U.S. military assistance in Slovenia are to promote stability, reduce the likelihood of further armed conflict, and promote democracy, civilian control of the military, and military professionalism, as well as further develop a strong bilateral military-to-military relationship and prepare the Slovenian military for integrating into NATO.

### **Mission of the Office of Defense Cooperation in Slovenia**

The mission of the Office of Defense Cooperation (ODC) in Slovenia is to achieve the above listed United States foreign policy and national security objectives through various security assistance programs:

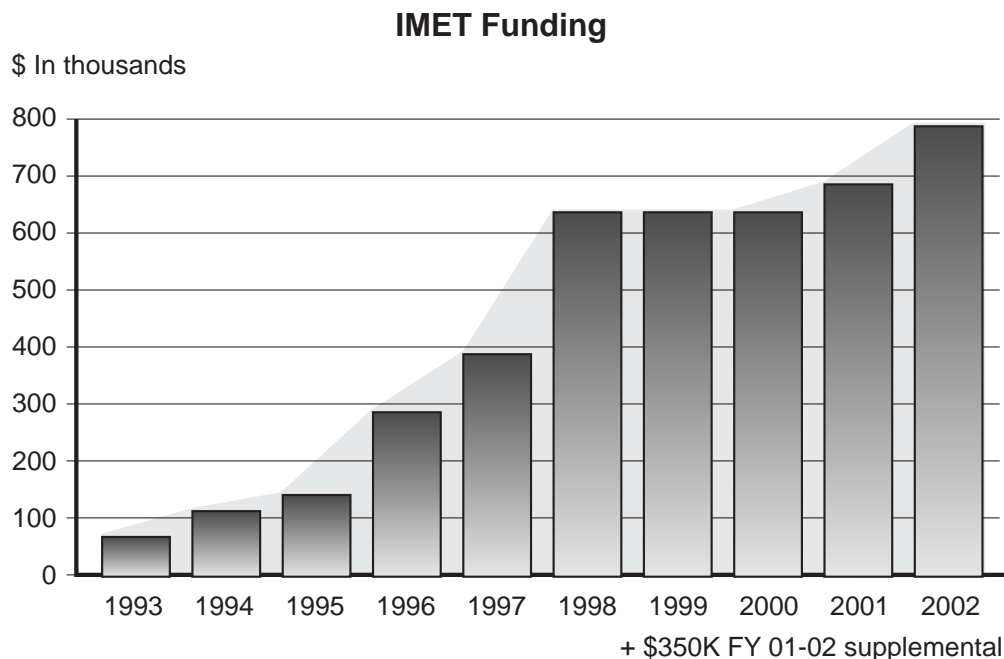
- International Military Education and Training (IMET) Program
- Foreign Military Sales

- 
- Other training opportunities

Assisting the Slovenian Ministry of Defense in acquiring equipment and training through foreign military sales (FMS) and foreign military financing (FMF) programs, will help in creating greater interoperability and standardization with NATO partners. The ODC is in an excellent position to increase U.S. influence because the IMET program provides training opportunities that strengthen the professionalism and leadership skills of Slovenia's military personnel. The Expanded-IMET (E-IMET) program provides excellent training opportunities for mid-to-high level civilian personnel and further strengthens a productive civil-military relationship.

The Office of Defense Cooperation is located in the Ministry of Defense (MOD) in Ljubljana and is staffed with one active duty Army officer who is in charge of overall supervision and executing FMS and FMF programs, and two foreign service nationals, one responsible for coordinating training and managing the office budget and the second responsible for administration and managing the day-to-day budget. While the ODC opened in 1996, Slovenia has been eligible for IMET funds since 1993. For three years the program was managed from the ODC in Austria. Both IMET and the FMF programs have grown substantially in the past few years. The IMET, which started with a modest \$75,000 in 1993, has in nine years grown more than fifteen times (\$800,000 in "regular" IMET in fiscal year 2002 and \$350,000 in emergency supplemental funds). The FMF program has increased significantly as well, from \$400,000 in its initial fiscal year 1996 to \$2.5 million in fiscal year 2001.

Apart from the security assistance programs, the ODC is responsible for two programs, which belong to the Defense Attaché's office, but are managed similarly to IMET and therefore are run from the ODC. These are the nominations for the Marshall Center for Security Studies in Garmisch, Germany and the U.S. service academies. The service academies have been a true Slovene success story. Every year that Slovenia has nominated candidates at least one has been offered an appointment. This year two out of four nominated for West Point have been offered appointments.



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## **The Specifics of the IMET Program in Slovenia**

Security assistance programs cannot be managed according to some generic formula, but must take into account specifics of the respective country.

One of the characteristics that governs implementation of the IMET program in Slovenia is tight civilian control over the military. All members of the armed forces are considered civil servants and subject to national civil service regulations and associated personnel policies. These policies establish personnel hiring levels, salaries, retirement conditions, and pensions. Several systemic issues have developed due to the inclusion of military personnel in the civil service and influence the execution of our programs.

The IMET students are typically chosen for U.S. training based on the training and educational requirements of their current positions. When the students return from the U.S, they usually return to their previous jobs. Most students return to Slovenia with high praise for the courses they attended and with the expressed intent to implement lessons learned. However, as mentioned, the personnel and legal system currently in place does not always allow the freedom for returning IMET students to carry through with this good intent to implement change.

The second characteristic that affects implementing of IMET in Slovenia is a small student pool. Only professional officers, noncommissioned officers and Ministry of Defense civilian employees can be trained through IMET. The program is not open to reservists.

Only one third of the 4650 officers and noncommissioned officers are eligible to participate in the IMET program. The second source of students is the Ministry of Defense. Their employees are mostly eligible for E-IMET courses. From its 1650 employees, half are eligible to attend training abroad.

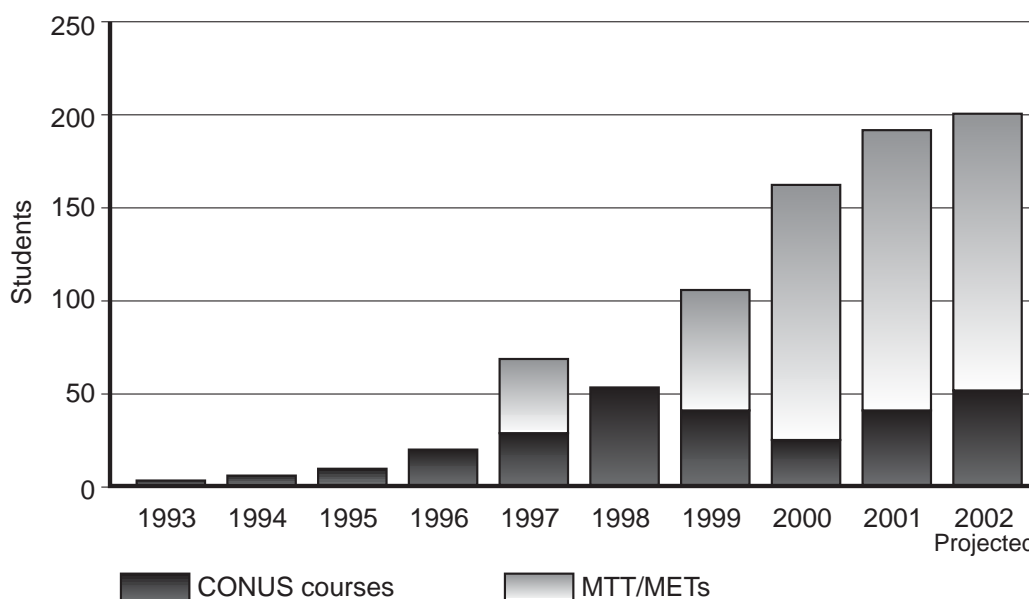
There are two main reasons for such a low percentage of eligible candidates on both the civilian and military sides. The first one is the English language requirement for training in the U.S. Even though English is taught in elementary and high schools, years later many candidates cannot function in English and their English Comprehension Level (ECL) is around 50. Since they are often tested only a few months before the training, there is no time to improve their English to the required level. On the other hand, many officers who received their professional military education in Yugoslavia did not learn English at all.

The second reason is the educational requirement. According to the internal regulations, every person who is supposed to go temporary duty (TDY) abroad for longer than one month has to be approved by the internal personnel board within the MOD's personnel department. They check if a candidate meets all the prerequisites, the U.S. course requirements and, even more important, internal MOD requirements. A few years ago, the then-Minister of Defense set a very strict rule, a person who wants to go TDY abroad has to first meet the educational requirements listed in the job description of the position for which they occupy. At first glance, the rule seems very reasonable, but the problem is that the same rule did not apply when the personnel presently occupying the affected positions were recruited. Slovenia has built its military from scratch. Many came from the territorial defense force, some from JNA; many new officers were recruited from the civilian sphere. In those days formal education was not the most important criteria for becoming an officer. Later on, however, the policy changed. One would expect that the officers recruited before a certain year would be granted exceptions, but this is not the case. The rule applies to all. Now many officers study part time to complete their undergraduate degrees in order to become eligible for promotion and training abroad.

Unlike the U.S., Slovenia has no separate military justice system, so young officers and noncommissioned officers trained under the U.S. system have limited powers of authority to act once they return home. This can cause frustration when these students return from IMET training and try to use their newly acquired knowledge and skills. That is the main reason why Slovenia nearly completely stopped sending their noncommissioned officers to IMET training even though the establishing of a professional noncommissioned officer corps is one of the Slovenian Armed Force's priorities.

One of the biggest challenges the program faced since the beginning of the program was the fact that there was no single Slovene office having oversight of all IMET activities in Slovenia. This caused many cancellations in the past since supervisors did not need to justify the cancellations to an overall manager of the program inside the ministry. The number of cancellations, especially those late enough to incur cancellation penalties, was increasing drastically until a single responsible office was designated – the MOD personnel department. That year therefore saw a tremendous improvement in the efficiency of the Slovene IMET process. Fortunately, the MOD personnel department is aggressive and holds other offices accountable for timely submission of training candidates' names and timely English language testing. We have also started to see several courses with alternate students named ahead of time. There have been limited course cancellations and only one cancellation penalty so far in fiscal year 2001.

### IMET Students

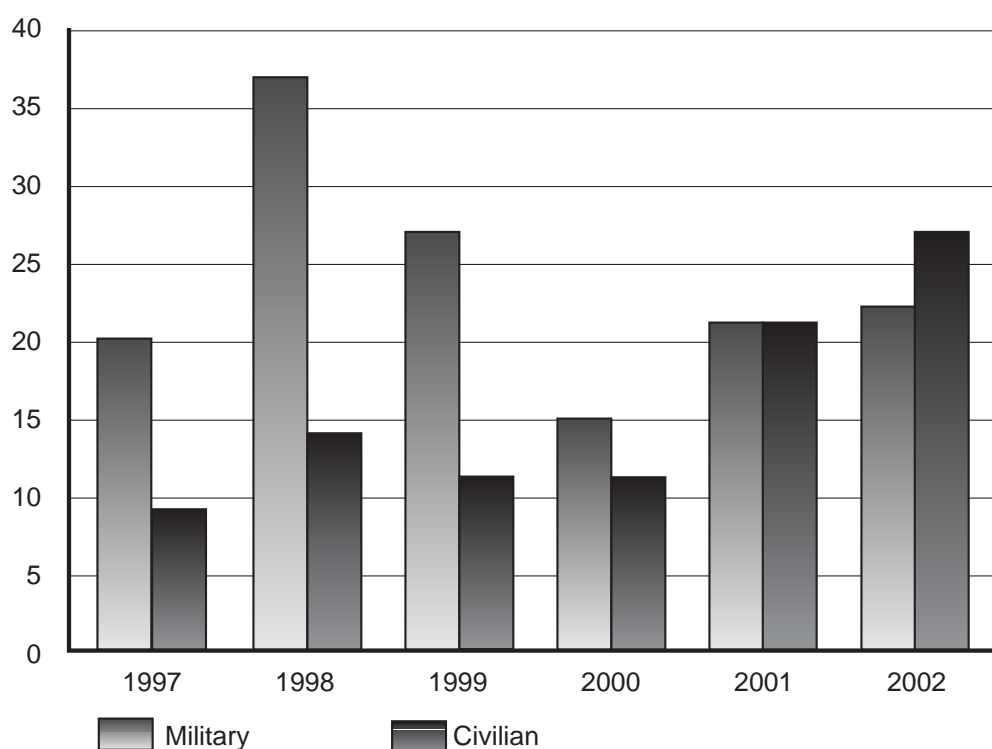


Information about IMET and the training opportunities it offers is not always disseminated down the chain of command to the units, but is kept in the general staff. This is not the case in the MOD. The ODC feels that many commanders outside the general have limited knowledge about the IMET program. This is one of the reasons why the ratio between civilians and military attending IMET is slowly but surely shifting in favor of the former. An important cause is probably also the simple fact that the MOD is at one central location, whereas the military is spread throughout the country.

The IMET program is often advertised as a full scholarship. In Slovenia, IMET covers the course cost as well as travel and living allowance. The only exceptions are non-E-IMET courses

shorter than eight weeks. For those, Slovenia pays the airfare. But there is a Slovene law that requires the Ministry of Defense to pay each student who travels abroad a Slovene-funded per diem, regardless of the per diem received from IMET. Per diem for the U.S. is in the most cases \$60.00 a day. When meals are provided, a student is entitled to 20 percent of the total per diem. The MOD interpreted the law so that they give for the weekdays “the meals provided rate” (\$12.00 a day) and on weekends full per diem. This means that one month of training through IMET costs the Slovenian government \$745. All IMET students are also entitled to one round trip ticket for the visit of immediate family members if the training is longer than four months. The students continue to receive their salary. IMET training therefore represents a certain financial burden for Slovenian government and has to be planned for in advance. This is one of the reasons why Slovenia cannot act rapidly and send students to IMET courses on short notice, such as when another country’s course cancellation results in a school quota being made available.

**Civilian and Military IMET Students**



Since the ODC opened in 1996, Slovenia has had six Ministers of Defense. Every such transition brings changes down to the operational level. New personnel are not educated about U.S. security assistance programs, which can hinder their implementation. In fact, at one point a new head of one of the departments within the MOD cancelled all the IMET training his predecessor requested. The ODC has to therefore continuously ask for appointments with the senior officials to brief them and ensure they become aware of the value and importance of the program. Luckily, it takes little more than a single briefing to convince most officials that IMET is a great opportunity.

Up to now, the focus has been on the specifics of the IMET program in Slovenia which hinder its implementation. For a complete picture, positive aspects must be considered as well. Since the opening of the ODC, the communication with the MOD has been very open and productive. In 1996 we started monthly meetings with key IMET managers in the MOD and the general staff,



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a practice that has continued to the present. The ODC, located within the MOD, has enjoyed easy access to these individuals at any time. IMET has unquestionably enhanced the professionalism of the Slovenian military and the Ministry of Defense. It has taught students a common language, as well as the principles used within NATO. Many of IMET students occupy the most influential positions within the SAF and the MOD.

#### **Positions of Prominence and Courses Attended**

<b>Deputy Chief of Staff</b>	<b>Army War College</b>
<b>Head of Personal Staff</b>	<b>International Defense Management Course</b>
<b>Head, J-5</b>	<b>Senior Defense Management Course</b>
<b>Commander, 1<sup>st</sup> Operational Command</b>	<b>Air War College</b>
<b>Deputy Commander, 1<sup>st</sup> Operational Command</b>	<b>Senior Defense Management Course</b>
<b>Commander, 2nd Operational Command</b>	<b>National Defense University</b>
<b>Deputy Commander, 3rd Operational Command</b>	<b>Air War College</b>
<b>Commander 1st Brigade of Slovenian Armed Forces</b>	<b>Army War College</b>
<b>Defense Attaché</b>	<b>Army War College</b>
<b>Defense Attaché</b>	<b>Civilian and Military Strategy for Internal Development</b>
<b>Defense Attaché</b>	<b>Senior International Defense Management Course</b>
<b>Chief, Ministry of Defense</b>	<b>Executive Program in Civilian and Military Affairs</b>
<b>Director, Partnership for Peace Foreign Language School</b>	<b>Materials Development Course</b>
<b>State Undersecretary - Advisor to the Minister for Defense Planning</b>	<b>National Defense University</b>

Slovenian students generally adjust very well to the American way of training and life. In fact, the ODC is to some extent even spoiled, since in most cases the feedback from the schools is positive. Slovenians are diligent, hard working students usually among the top in their class. Problems that often plague international military students such as medical or family issues are rarities for the ODC. Slovenes are also very happy to return home and not one has decided to “disappear” while in the U.S. Basically, after the students are briefed and issued the ticket, little is heard about them until they return home.

One big advantage of Slovenian students is a good English language proficiency stemming from the Slovenian school system. In Slovenia, English is taught in schools from the fifth grade of elementary school all the way through high school and in some cases at the university. Theoretically every one should easily achieve an English Comprehensive Level score of 80, typically the minimum for professional military education. Of course the reality is different. Many who have been out of school longer and have not practiced the language have forgotten most of it, but the younger generation is fluent. The SAF and MOD put a big emphasis on English language training and have an excellent in-country English language training program largely funded from Warsaw Initiative money, as well as IMET. It was certified by NATO in fiscal year 2001 as a Partnership for Peace language center and is now training military students from other partner nations. The Warsaw Initiative funds language training detachment coordinator and a three-person instructional mobile training team from the Defense Language Institute, as well as four teacher-contractors. All this is very well reflected in Slovenia’s IMET program. In many cases, students do not need to attend specialized English language training, because of the

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excellence of the in-country training program. Naturally, there are exceptions, such as courses for which specialized English language is mandatory.

### **How to Fully Utilize IMET Money in the Future?**

For the past three years, Slovenia had difficulty spending its allocated budget, because of the specifics of the program mentioned in the above paragraphs. In fiscal year 2001 however, other ways of spending IMET money were developed, and therefore, Slovenia came very close to fully utilizing its fiscal year 2001 allocation. Mobile training and educational teams have proven to be a very successful tool and an excellent alternative to training in the U.S. for several reasons:

- Training is tailored to Slovenia's needs
- Cost effective training (more students for less money)
- Training is short (one or two weeks), so students stay with their families
- Formal education is not a prerequisite for attending
- No per diem is paid from the MOD budget
- Knowledge of English is not required (IMET pays for interpreting)

Conducted with great success so far in fiscal year 2001 have been

- Regular IMET: Psychological Operations and Staff Procedures
- E-IMET: Quality Force Management, Legal Aspects of Peace Operations (both by the Defense Institute for International Legal Studies) and Examination of the Basis of Legitimacy of the Slovene Armed Forces (by the Center for Civil-Military Relations).

Most recently IMET money has also been used for in-country English language training. The in-country English language training has, up to now, been funded from FMF. But in fiscal year 2001 for the first time the FMF money has been allocated for other projects such as upgrading of Bell-412 helicopters and frequency management system, and IMET money had to be spent on English language publications, instructional MTTs and English language equipment. But here the ODC has to take into account that English language materials and equipment ordered through IMET are not free of charge for the Ministry of Defense. When the materials and equipment are handed over to the host government, they become subject to the payment of value added tax that is usually 19 percent of the total value. There is no way around this short of changing the law for even if given as grant aid, they are still subject to the Slovene value added tax.

Slovenia continues to put a high priority on senior professional military education courses, i.e., senior service schools and command and staff colleges. It also continually requests slots at the combat arms basic and advanced officer courses, although the request for fiscal year 2002 shows a decrease in the level of professional military education.

The ODC expects that Slovenia will continue requesting management related courses, especially from the U.S. Army Logistics Management College at Ft. Lee, the Defense Resource Management Institute, and courses taught at other schools that offer E-IMET training.

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Technical and special training will continue to play a less important role in our program, at least for a few more years. The ODC believes Slovenia will also request one or two Ranger courses and some training for medical personnel in the future.

## **In Conclusion**

The program's success does not depend only on the host country. The Office of Defense Cooperation is very well aware of the fact that despite the challenges and obstacles that stem from Slovenia's legal and political system and set certain limits on the implementation of the program, there is still much we can do to improve cooperation. We are constantly trying to find new solutions, especially in the area of better promotion of what IMET offers. The ODC home page address is <http://www.usembassy.si/new/ODC/index.html> where one can find all information about IMET, the purpose of the program, points of contact, and most importantly links to various schools as well as links to the courses that Slovenes most often attend. A link to our home page will soon be included also on the Ministry of Defense home page. We are also considering preparing a disk that will contain all the training catalogs that are now offered on-line. This way the offices without internet access can still receive information about training opportunities.

The ODC has conducted two informational briefings on IMET so far in fiscal year 2001: one to MOD supervisors and one to all cadre at the Headquarters Military Schools. The two briefings, which were in Slovene, resulted in numerous visits and phone calls to the office for additional information and specific course data, and the fiscal year 2002 plan reflects the success of such briefings. Recently the ODC chief received permission from the Slovenia chief of staff to brief uniformed military personnel at the Operational Command level. We hope that this will increase military participation in IMET.

The direction in which the program will go depends a lot on Slovenia's invitation to NATO in 2002. It is possible that the interest for the program will decrease if Slovenia is left out. On the other hand, the training requirements will grow if Slovenia becomes a member of NATO and starts purchasing major military equipment. This will of course shift training funding from IMET to FMS.

It is difficult to predict how the increase of professional forces as Slovenia transitions from a conscription-based to a professional-based military will affect the program up and beyond the year 2010. It is very realistic to expect however, that at least part of newly recruited will be sent to training in the U.S., financed either through IMET or national funds.

The IMET program in Slovenia has grown tremendously since the office was opened in 1996 not only in terms of funding levels, but also in terms of the level of sophistication of the training requested. The ODC office itself has gone a long way in learning about the program, see the next article "I Wish I Had Kown" in this *Journal* and our understanding has helped us to assist the Slovene Armed Forces in achieving its goals. We do not want to send students at any cost just for the sake of numbers. It is better a course be cancelled if the right person cannot attend than to send an inappropriate student. What is even more important is that slowly but surely more and more people know about the office and our programs. We have learned that sharing information is a key to success and is the reason we insist on making information about the training opportunities available to all the employees and soldiers.

The issues that the MOD and SAF confront affect the implementation of IMET. In order to successfully manage the program, it is essential to have a thorough knowledge of the host country military and defense system, their challenges, and strengths. A good training manager should be able build a bridge between theory and application between the guidance and instructions that govern the IMET program and the real life situation in the host country. Flexibility, readiness to

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cooperate, and an open dialogue with the host government representatives are the keys for successful implementation of the IMET program.

### **About the Author**

Irena Cufar is the IMET Manager and Budget Analyst in the U.S. Office of Defense Cooperation, Ljubljana, Slovenia. She has held these positions since the office opened in 1996. Ms. Cufar received her Bachelor of Arts degree in 1996 from the University of Ljubljana, majoring in geography and history. She is a graduate of the DISAM Foreign Purchaser (SAM-F) and Overseas (SAM-O) courses. Irena has lectured on international military student training program management at the U.S. European Command's annual Security Assistance Training Seminar and U.S. Army and Navy annual International Military Student Officer conferences. Irena is fluent in Slovene, English, German, and Croatian, and reads Spanish.



**Many are surprised by the beauty of the Slovenian Adriatic coast.**

**Not widely known in the U.S. Slovenia produces some of Europe's finest wines.**



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# **I Wish I Had Known**

**By**

**Irena Cufar**

**U.S. Office of Defense Cooperation, Slovenia**

## **Starting is Difficult**

I started to work in the Office of Defense Cooperation (ODC), Ljubljana, Slovenia, shortly after it opened in 1996, and have been involved in every aspect of the ODC's mission since then. Many times I have wished there was someone I could approach with my questions – a fairy godmother to guide and advise me through this complex and confusing world of security assistance. The purpose of this article is to share the lessons I have learned and the things I wished I had known when I started working in the ODC, with others who might find them useful, especially other training managers and foreign service nationals (FSN).

When I was offered my present position as an international military education and training (IMET) coordinator and budget analyst, I had never even heard of security assistance. The office consisted of a computer and two boxes of catalogs. I knew what to use the computer for, but had no idea what to do with the catalogs beyond using them to fill up a bookshelf. At that time the office was staffed with one active duty Army officer and myself. I was confronted with unknown acronyms, and a “puzzle” of security assistance organizations. Daily I received phone calls from people who claimed they were Slovenia's desk officers. I was trying to fit the names of the security assistance organizations that were little more than abstruse acronyms to me into a mosaic of security assistance. Slowly, with training and experience the picture has become less and less blurry. Soon it became obvious that managing IMET was just a one part of the job. The list of my duties was getting longer every day. Before I knew it, I was a budget analyst, filing manager, publication manager, and when required, a travel guide, translator, secretary and driver. A very dynamic job indeed!

The next rather unclear area in the beginning was the relationship between the American embassy and our office. Despite the office's location in the Ministry of Defense, it is one of the embassy's agencies. According to the International Cooperative Administrative Support Services (ICASS) agreement the embassy has to provide certain services for which they are reimbursed. I have learned that is very useful to have the list of services handy, to consult it when somebody tries to convince you that their office does not need to provide us a certain service.

Each embassy has several military offices involved in seemingly similar, yet subtly distinctive programs. It took me a while to understand the different missions of each of the offices, defense attaché, joint contact team program, and the office of defense cooperation. I have noticed that our Slovene counterparts very often have a hard time distinguishing among various military programs that the U.S. carries out in Slovenia.

There is one thing I have wished more often than anything else in this office that I had some military background. In my opinion, this is the most difficult, if not impossible, to catch up with, because of its complexity and extensiveness. I could list a few pages of the anecdotal examples that have been the result of my military ignorance. Here are some areas where the lack of knowledge was the most obvious and often also embarrassing:

- Ranks (sergeant major is lower than major)
- Units (“Platoon” is not just a movie)

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- Branches (Field Artillery are not tractors)
  - Military life (base, PX, commissary)
  - Military English and acronyms

When one is in charge of preparing students to go to live in a foreign country, he or she is supposed to provide a brief overview on culture and customs of the country. Before I started working in the office I had never been in the U.S., and everything I knew I learned from the movies. Thus my first students were not very well prepared for their big adventure. When going to the U.S. for the first time after several months in the office and seeing my first military base, Wright-Patterson Air Force Base, a place very well known to the security assistance community, my mouth fell open. I had no idea that the bases are so huge, literally towns. Now I understood why some of my students complained about not having a rental car! Without a car, you could hardly get to a bathroom, as I described it to my students after returning home. I finally had an idea of how the mysterious visiting officers quarters looked like, and I could assure them that they will be able to do their own laundry. And shopping! I could give them advice on what they would find in the commissary and PX/BX (Post Exchange/Base Exchange) and that when shopping outside the base, they should not accuse the cashier of cheating when the price on the receipt was higher than the one on the label: The price on the label does not include the tax!

When I look back on my first months in the Office of Defense Cooperation, I wonder how everything worked out so smoothly, without any major problems such as a student at the wrong school or a penalty for a cancelled quota.

## **Student Processing**

Proper preparation of a student for U.S. training undoubtedly creates a favorable attitude toward achieving the objectives for which he is being trained. Therefore, a thorough pre-departure briefing is essential for each student selected for training under IMET.

The Joint Security Assistance Training (JSAT) regulation, chapter 10, section VI *In-Country Pre-Departure Briefings and Training Installation Briefings for International Military Students* describes in detail which topics should be included in the in-country pre-departure briefing. The regulation is understandably very general, because it has to cover international students from all over the world, going to over 150 schools. From my discussions with other training managers, I have learned that aside from certain specific requirements in the JSAT, the process is unique in every country, stemming out of each country's unique characteristics, and those of the training managers who run it.

Since I had no predecessor and at first did not have anybody whom I could ask for advice, I developed my own student processing procedure. It is based upon JSAT, but modified to meet the needs of our office. Described below is how the IMET students are processed in Slovenia. Student processing has been constantly updated and modified, based on the comments of returning students.

The Ministry of Defense and the ODC have divided among themselves the responsibilities for student processing. In Slovenia the Ministry of Defense is responsible for:

- Student selection and compliance with course prerequisites. It is up to the ministry to select a student for the course they requested and to schedule them for English Comprehension Language testing with the ODC. We provide our point of contact within the personnel department of the Ministry of Defense with a course description, including all prerequisites. Beyond that, we

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encourage them to follow the student selection guidance set forth in chapter 10 of the *Security Assistance Management Manual*, but as long as the student meets the course prerequisites, it is essentially the Ministry of Defense's decision.

- **Background and security check.** Slovenia is a democratic country with no history of human rights abuses or war crimes. Before becoming a government employee or member of the military, one has to present proof of a crime-free police record. Therefore, our task in ensuring that candidates for training pass the required background check is an easy one. The ODC prepares a form which the Ministry of Defense signs, verifying that the student does not have a questionable background. Other offices within the embassy, such as the regional security office, are available to provide further validation of the candidate.

- **Medical screening.** All Ministry of Defense employees and service members have a medical screening every two to three years. Furthermore, there is an internal requirement that before traveling abroad, each person has to undergo a mandatory screening. The only U.S. requirement that Slovenia had to add, at our request, was the HIV test. The Ministry of Defense, once again, provides us with a certificate ensuring that the required medical screening has been performed.

- **Physical fitness and combat water survival tests.** The tests are conducted when required by course prerequisites. The ODC chief, with the assistance of Ministry of Defense personnel and facilities, conducts them according to U.S. military standards.

- **Uniforms.** The students are provided a list of the uniforms required for their specific course and or schools, and are required to wear their Slovene uniforms. Exceptions include very specialized courses such as ranger and medical training, where students are issued the uniforms at the school.

- **Salary.** Students from Slovenia continue receiving their salary while in training in the U.S.

- **Other allowances.** Students attending training in the U.S. under the IMET program receive a modest stipend through the IMET program to pay for lodging, meals, and incidental expenses, much as the U.S. military receive per diem when traveling. This is to ensure that students with lower incomes than their U.S. counterparts can afford the expenses of living in the U.S. during their training. In addition, Slovene law requires that the Ministry of Defense pay each student who travels abroad a Slovene-funded per diem, regardless of the per diem received from IMET. Per diem for the U.S. is typically \$60.00 a day. When meals are provided, a student is entitled to 20 percent of the total per diem. The Ministry of Defense interprets this law so that they give the meals provided rate, \$12.00 a day, on weekdays, and full Slovene per diem on the weekends.

- **Airline ticket.** The IMET program pays for the student's airfare to the United States. By Slovene law, IMET students are entitled to one round trip ticket home if the training is at least four months in duration. They can receive up to three tickets if the training is longer than one year. Often, a student has no time to come home during training. Therefore, the ticket may be used by his or her immediate family member instead. Due to IMET prohibitions on short-term training for non-extended IMET courses, the Ministry of Defense pays the airfare for any student who will be in the U.S. for less than eight weeks.

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## **The ODC is responsible for:**

- English Comprehension Language (ECL) testing. In previous years, the ECL test was scheduled whenever needed and conducted by the ODC chief. In September 2000 the Defense Language Institute (DLI) coordinator position was opened. Since then, the coordinator, a U.S. government employee, is responsible for ECL testing. Recently, at the request of our point of contact at the personnel department, a fixed day for testing, the second Tuesday of every month, has been established to allow for easier planning.

- Visa. The student fills out the visa application form and we make arrangements with the U.S. embassy's consular office for his or her visa.

- Airline ticket. The office has obtained blanket round-trip waivers from the U.S. Army and Navy for purchasing round trip tickets for courses shorter than six months. From the Air Force we receive waivers on a case-by-case basis. Purchasing round trip tickets is very cost effective, saving thousands of IMET dollars for use in purchasing additional courses. The tickets are fully refundable, so even if the departure date or location changes, the ticket can be altered without cost.

- Advanced per diem. Although students can be paid their per diem in advance, we do so only when a course length is two weeks or less. Recently Slovenia has requested many short courses, not only E-IMET, but also regular IMET, for which it has to defray the cost of airline tickets. Based on the payment schedule, past students have received per diem at the end of the training, or not at all, during these short courses. Therefore, we decided to pay short, two weeks or less, course per diem in advance.

- Arrival information and international military student information (IMSI). Approximately two weeks before the report date. I send an e-mail to the international military student officer (IMSO) with the student's arrival information, date, flight number, and time of arrival, and required biographical data, the so-called IMSI.

- Prepare invitational travel order (ITO), and send it to the military department (MILDEP), IMSO and Slovenian defense attaché (DATT). The JSAT requirement is to send the invitational travel order to the school and MILDEP. We also decided to provide a copy of invitational travel order to the Slovenian DATT in Washington. We have learned that the MOD does not always inform the DATT of the Slovenes in training in the U.S., and since I send the ITOs electronically it adds no time or expense to include the DATT in the list of addresses.

- Pre-departure briefing. Because Slovenia is a small country, every student is able to come to my office for a pre-departure briefing. We always have two meetings. When the students come to my office for the first time they know very little about when and where they are going for training. We are working with the Slovenia personnel department in the MOD to ensure that students receive adequate notice as to when they will be starting their training in the U.S. Presently this is a weakness. At our first meeting, I provide the student with some very basic information students departure data and training location as well as information about the training and training installation.

- Student's departure date and training location.

- Course description and information on the training installation. The schools and military departments have, in most cases, done an excellent job of making our work easier with putting on-line a lot of information about the schools and courses available. Many have information tailored to international students available for downloading. Most of the Army and



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the Navy and some of the Air Force schools have their own web pages, and I either print information or simply give a student the school's URL address, since most have internet access either at work or at home.

- Cultural differences. The students are provided with materials which makes them aware of the different customs, beliefs, courtesies and life styles in the U.S.

- Visa form and international military student information form are filled out.

- Money and credit cards. I have learned that the students are rather confused about the money they are going to receive while at training. Therefore, I make sure that they understand that there are two sources of funding, one is the per diem they receive from the Ministry of Defense, and the second is the IMET living allowance. I explain payment procedures in detail. The student is informed that he or she will receive the travel advance from the Ministry of Defense to cover initial costs and that it can take a few weeks before he or she receives the IMET per diem. I advise the students that it is very useful to have one of the major personal credit cards with them as well as a bank account where the IMET per diem can be transferred.

- Clothing. I advise the students of the general climatic conditions within the geographic area where they will be receiving training. The students receive a list of required uniforms or special clothing and equipment.

- Dependents and medical insurance. Even when authorized, Slovenian students rarely take their dependents with them for the duration of training. Most often they come for a short visit, up to one month. In any case, the students are informed that having dependents in the U.S. is very expensive, especially when they cannot stay on base. I emphasize how important is for the family members to get health insurance in case of medical emergencies since otherwise the students would have to cover all the medical costs. On the other hand I stress that additional health insurance is not required for the students, since all the charges for inpatient and outpatient care, immunization, and medical examinations are chargeable to the IMET program.

- Baggage allowance. The students are told how much luggage they are authorized. Baggage allowance, per the JSAT, is high and rarely limits the students.

- Driving. Slovenian students are authorized to buy or rent a car if they so desire. Of course this must be at no cost to the IMET program. They are advised to obtain an international driving license before leaving Slovenia, and encouraged to look into automobile insurance as well.

- Privileges. I inform the students about the privileges they and their authorized dependents are entitled to: shopping at the base exchanges and commissary, and their temporary membership in officers or noncommissioned officers clubs.

- Military status. I advise the students they will be treated in the same manner as their U.S counterparts. The international students are given the same privileges and, therefore, assume the same responsibilities as U.S. military personnel.

- Information on Slovenia. Despite being an independent country for ten years, Slovenia is not very well known in the U.S. From my personal experiences, I have learned how useful it is to bring some maps and brochures about Slovenia. I wish the MOD would provide this material to the students, but since this is not the case, I suggest they get this material, free of charge, at the Slovene Tourist Board.

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At our second appointment, which is usually two or three days before the departure, the student receives:

- The airline ticket. I always check if the student has been in the U.S. before. If not, and it seems like the student feels uncomfortable about going so far away from home, I explain in great detail the overseas flight and the procedures at the U.S. Customs and Immigration offices.
- Advance per diem. When course duration is at least two weeks, the student receives advance per-diem.
- Invitational travel order. I explain the invitational travel order to the students from paragraph to paragraph, because I think it is important for student to be familiar with it, since the invitational travel order is the document which determines what the student is authorized to do. I repeat once again the most important facts that I want the students to remember, such as per diem, how much baggage is authorized, which uniforms to take, what to do in case of medical emergency, how much leave can be taken if authorized (thirty days at no cost to U.S. government and IMET program). The students get the original and four copies of the invitational travel order, while the Defense Language Institute students get fifteen copies.
- The international military student officer's name, address, phone number. I tell the students they will be met at the airport by the international military student officer. The student is given the name and phone number so that in the case of a flight delay the student can contact him/her from the airport. In my opinion, having the name of the person who is going to meet them in the U.S. gives the student a feeling of security. I explain to the students that the IMSO will assist them and if problems arise they should bring them to the IMSO's attention.
- ODC's phone number and e-mail. The student is reassured that they should feel free to contact me in case some problem arises that cannot be resolved by the international military student officer at the school. I also ask them to send me a quick e-mail when they arrive to the school.
- Weather report. Usually the students find this information on-line themselves, but in case they do not, I give them a weather report for a few days in advance.
- Pre-paid phone card. Making phone calls home is very expensive, therefore the student receives an example of a military prepaid card and a commercial phone card.
- Instructional material. The students are advised that at the end of the training their instructional materials will be shipped to the ODC office address, where they can pick it up.

Upon return to Slovenia, the students come for debriefing and pick up their instructional materials. The debriefing is oral and the students are encouraged to talk about their positive and negative experiences in the U.S. and how useful they found the training. I stress that their feedback is critical to helping me ensure that we continue to improve the student administration process, and provide for an even higher-quality experience for future students.

## **Conclusion**

I consider student processing, especially the pre-departure briefing, to be the most important part of my job. The effectiveness of my briefing directly affects people and impacts the success of the mission. Who cares if I file a memorandum in the wrong folder? On the other hand, what if I send a student to the wrong school without the proper uniforms? There is no doubt in my

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mind that the way a training manager prepares a student for training in the United States can have an enormous influence on the overall training experience for that student.

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# ***LEGISLATION AND POLICY***

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## **Conventional Arms Transfers to Developing Nations, 1992-2000**

**By**

**Richard F. Grimmett  
Congressional Research Service  
The Library of Congress**

[The following are extracts from an unclassified report of conventional arms transfers to developing nations as published under the above title by the Library of Congress on August 16, 2001. Macro data on worldwide arms transfer agreements and deliveries are also included. The selections included herein begin with a discussion of major research findings regarding the dollar value of both arms transfer agreements and arms deliveries to the developing countries from 1992 through 2000. These findings are all cross-referenced to comparative data tables which are presented following the textual material. Special attention is given to the roles of the United States, the former Soviet Union, and China as arms suppliers, and to identification of the leading Third World arms recipient nations. The report concludes with a listing of the type and quantity of weapons delivered to developing nations by major arms suppliers from 1993-2000. Some of the footnotes, charts, and tables have been omitted; the numbers of remaining footnotes, charts, and tables are the same as in the original copy. Copies of the complete document are available from the Foreign Affairs and National Defense Division, Congressional Research Service, The Library of Congress, Washington DC 20540].

### **Summary**

This report is prepared annually to provide unclassified quantitative data on conventional arms transfers to developing nations by the United States and foreign countries for the preceeding eight calendar years. Some general data are provided on worldwide conventional arms transfers, but the principal focus is the level of arms transfers by major weapons suppliers to nations in the developing world.

Developing nations continue to be the primary focus of foreign arms sales activity by weapons suppliers. During the years 1993-2000, the value of arms transfer agreements with developing nations comprised 67.7 percent of all such agreements worldwide. More recently, arms transfer agreements with developing nations constituted 67.6 percent of all such agreements globally from 1997-2000, and 69 percent of these agreements in 2000.

The value of all arms transfer agreements with developing nations in 2000 was over \$25.4 billion. This was the highest total, in real terms, since 1994. In 2000, the value of all arms deliveries to developing nations was \$19.4 billion, a notable decrease in deliveries values from 1999 (\$26.2 billion in constant 2000 dollars).

Recently, from 1997-2000, the United States, Russia, and France have dominated the arms market in the developing world, with the United States ranking first each of the last three years in the value of arms transfer agreements. From 1997-2000, the United States made \$31.5 billion in arms transfer agreements with developing nations, in constant 2000 dollars, 37.2 percent of all

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such agreements. Russia, the second leading supplier during this period, made nearly \$16.8 billion in arms transfer agreements, or 19.8 percent. France, the third leading supplier, made over \$9.7 billion or 11.5 percent of all such agreements with developing nations during these years.

In 2000, the United States ranks first in arms transfer agreements with developing nations at \$12.6 billion or 49.7 percent of these agreements. Russia was second with \$7.4 billion or 29.1 percent of such agreements. France ranked third with \$2.1 billion or 8.3 percent of such agreements. The total value of U.S. arms transfer agreements with developing nations in 2000 notably increased, in real terms, from \$8.7 billion in 1999 to \$12.6 billion in 2000 (in constant 2000 dollars). In 2000, the United States ranked first in the value of arms deliveries to developing nations at \$8.7 billion, or 44.8 percent of all such deliveries. The United Kingdom ranked second at \$4.4 billion or 22.7 percent of such deliveries. Russia ranked third at \$2.4 billion or 12.4 percent of such deliveries.

During the 1997-2000 period, the United Arab Emirates (U.A.E.) ranked first among developing nations in the value of arms transfer agreements, concluding \$14 billion in such agreements. India ranked second at \$7.6 billion. Egypt ranked third with \$6.9 billion. In 2000, the United Arab Emirates ranked first in the value of arms transfer agreements among all developing nations weapons purchasers, concluding \$7.4 billion in such agreements. India ranked second with \$4.8 billion in such agreements. South Korea ranked third with \$2.3 billion.

## **Introduction**

This report provides unclassified background data from U.S. government sources on transfers of conventional arms to developing nations by major suppliers for the period 1993 through 2000. It also includes some data on worldwide supplier transactions. It updates and revises the report entitled "Conventional Arms Transfers to Developing Nations, 1992-1999," published by the Congressional Research Service (CRS) on August 18, 2000 (CRS Report RL30640).

The data in the report illustrate how global patterns of conventional arms transfers have changed in the post-Cold War and post-Persian Gulf War years. Relationships between arms suppliers and recipients continue to evolve in response to changing political, military, and economic circumstances. Despite global changes since the Cold War's end, the developing world continues to be the primary focus of foreign arms sales activity by conventional weapons suppliers. During the period of this report, 1993-2000, conventional arms transfer agreements (which represent orders for future delivery) to developing nations have comprised 67.7 percent of the value of all international arms transfer agreements. In 2000, arms transfer agreements with developing countries rose from 1999 totals, comprising 69 percent of the value of all such agreements globally. The portion of agreements with developing countries constituted 67.6 percent of all agreements globally from 1997-2000. Deliveries of conventional arms to developing nations, from 1997-2000, constituted 70.2 percent of all international arms deliveries. In 2000, arms deliveries to developing nations constituted 66 percent of the value of all such arms deliveries worldwide.

The data in this new report completely supercede all data published in previous editions. Since these new data for 1993-2000 reflect potentially significant updates to and revisions in the underlying databases utilized for this report, only the data in this most recent edition should be used. The data are expressed in U.S. dollars for the calendar years indicated, and adjusted for inflation. The United States commercially licensed arms exports are incorporated in the main delivery data tables, and noted separately. Excluded are arms transfers by any supplier to subnational groups.

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## Calendar Year Data Used

All arms transfer and arms delivery data in this report are for the twelve – month period given. This applies to both United States and foreign data alike. The United States government departments and agencies publish data on United States arms transfers and deliveries but generally use the United States fiscal year as the computational time period for these data. (A U.S. fiscal year covers the period from October 1 through September 30. As a consequence, there are likely to be distinct differences noted in those published totals using a fiscal year basis and those provided in this report which use a calendar year basis for its figures. Details regarding data used are outlined in footnotes at the bottom of **Tables 2 and 9**.)

## Constant 2000 Dollars

Throughout this report, values of arms transfer agreements and values of arms deliveries for all suppliers are expressed in U.S. dollars. Values for any given year generally reflect the exchange rates that prevail during that specific year. In many instances, the report converts these dollar amounts (current dollars) into constant 2000 dollars. Although this helps to eliminate the distorting effects of U.S. inflation to permit a more accurate comparison of various dollar levels over time, the effects of fluctuating exchange rates are not neutralized. The deflators used for the constant dollar calculations in this report are those provided by the U.S. Department of Defense and are set out at the bottom of **Tables 2 and 9**. Unless otherwise noted in the report, all dollar values are stated in constant terms. Because all regional data tables are composed of four-year aggregate dollar totals (1993-1996 and 1997-2000), they must be expressed in current dollar terms. Where tables rank leading arms suppliers to developing nations or leading developing nation recipients using four-year aggregate dollar totals, these values are expressed in current dollars.

## Definition of Developing Nations and Regions

The developing nations category, as used in this report, includes all countries except the United States, Russia, European nations, Canada, Japan, Australia, and New Zealand.

## Major Findings

### General Trends in Arms Transfers Worldwide

The value of all arms transfer agreements worldwide (to both developed and developing nations) in 2000 was nearly \$36.9 billion. This is a clear increase in arms agreements values over 1999, and is the third year in a row that total arms agreements increased over the previous year. This total, however, is substantially lower in constant dollars than that of 1993, during the period of post-Persian Gulf war rearmament. (**Chart 1 and Table 8A**.)

In 2000, the United States led in arms transfer agreements worldwide, making agreements valued at nearly \$18.6 billion (50.4 percent of all such agreements), up from nearly \$12.9 billion in 1999. Russia ranked second with \$7.7 billion in agreements 20.9 percent of these agreements globally, up notably from \$4.1 billion in 1999. France ranked third, as its arms transfer agreements worldwide rose significantly from \$936 million in 1999 to \$4.1 billion in 2000. The United States, Russia and France, collectively made agreements in 2000 valued at nearly \$30.4 billion, 82.4 percent of all international arms transfer agreements made by all suppliers. (**Figure 1, Tables 8A, 8B, and 8D**.)

For the period 1997-2000, the total value of all international arms transfer agreements (about \$125.1 billion) has been notably less than the worldwide value during 1993-1996 (about \$142.4

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billion), a decline of 12.1 percent. During the period 1993-1996, developing world nations accounted for 67.7 percent of the value of all arms transfer agreements made worldwide. During 1997-2000, developing world nations accounted for 67.6 percent of all arms transfer agreements made globally. In 2000, developing nations accounted for 69 percent of all arms transfer agreements made worldwide. **(Figure 1 and Table 8A.)**

In 2000, the United States ranked first in the value of all international arms deliveries, making nearly \$14.2 billion in such deliveries or 48.3 percent. This is the eighth year in a row that the United States has led in global arms deliveries, reflecting, in particular, implementation of arms transfer agreements made during and in the aftermath of the Persian Gulf War. The United Kingdom ranked second in worldwide arms deliveries in 2000, making \$5.1 billion in such deliveries. Russia ranked third in 2000, making \$3.5 billion in such deliveries. These top three suppliers of arms in 2000 collectively delivered nearly \$22.8 billion, 77.5 percent of all arms delivered worldwide by all suppliers in that year. **(Figure 2, Tables 9A, and 9D.)**

The value of all international arms deliveries in 2000 was nearly \$29.4 billion. This is a substantial decrease in the total value of arms deliveries from the previous year (nearly \$38 billion), and the lowest total of the last eight years. The total value of such arms deliveries worldwide in 1997-2000 (\$151.1 billion) was a nominal decrease in the value of arms deliveries by all suppliers worldwide from 1993-1996 (\$152.8 billion). **(Figure 2 and Table 9A.)**

Developing nations from 1997-2000 accounted for 70.2 percent of the value of all international arms deliveries. In the earlier period, 1993-1996, developing nations accounted for 65.8 percent of the value of all arms deliveries worldwide. Most recently, in 2000, developing nations collectively accounted for 66 percent of the value of all international arms deliveries. **(Figure 2, Tables 2A, and 9A.)**

Intense competition continues among major weapons suppliers. However, the limited resources of most developing nations to expend on weapons, and the need of many selling nations to secure cash for their weapons, places constraints on significant expansion of the arms trade. Developed nations are likely to continue to seek to protect important elements of their own national military industrial bases. Consequently, these nations are likely to limit their arms purchases from one another, except in instances where they are engaged in joint production of specific weapons. Those nations that can effectively restructure and consolidate their defense industries seem most likely to be the key players in the international arms marketplace in the next few years. Some traditional arms supplying nations may find it necessary to participate in more joint production ventures or to join in multinational mergers, such as some German and French defense firms did through formation of European Aeronautic, Defense and Space Company (EADS) in 1999, to maintain the competitiveness and viability of their national defense industrial sectors. Other arms supplying nations may choose to focus on specialized niche markets in their arms exporting efforts, concentrating on sales of weapons they believe they can readily produce and sell consistently.

A number of weapons exporters continue to focus their efforts on maintaining and expanding arms sales to nations and regions where they have competitive advantages due to prior political or military ties with the prospective buyers. New arms sales opportunities may yet develop with some European nations in the near term due to the expansion of the North Atlantic Treaty Organization (NATO). This has yet to occur to any significant degree, due to the limited financial resources of the new NATO members. As a consequence, these nations have focused in the short run on upgrades of existing weapons systems in ways that require fewer major expenditures by their governments.

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It is possible that additional notable arms sales may result in the Near East, Asia, and Latin America as individual nations seek to replace older military equipment. A significant factor in the development of arms sales prospects in these regions especially will be the state of the international economy. A large portion of the developing world has not recovered fully from recent international financial problems. The 1997-1998 fall in the price of crude oil, now reversed, created great financial difficulties for some Persian Gulf states. Saudi Arabia found itself in significant financial straits, in light of the various obligations it undertook during and after the 1990-1991 Persian Gulf War, its domestic spending programs, and the magnitude of the costs associated with its weapons procurement program. Despite the significant increase in the price of crude oil since 1999, that fact, by itself, has not resulted in substantial new and expensive weapons procurement programs by most major oil producing nations in the developing world. Indeed, the notable decline in major arms purchases by Saudi Arabia, traditionally the single largest arms purchaser in the early to mid-1990s, is a graphic example of the caution oil-rich nations are displaying at present. The United Arab Emirates (U.A.E.), for its part, has made significant purchases of advanced military hardware most recently, particularly combat aircraft. The U.A.E. has lacked the debt problems confronted by the Saudis in the mid-1990s. As a consequence, the U.A.E. has gained significant bargaining power as it seeks new weapons, and has become a prime marketing target for major arms suppliers.

The Asian financial crisis that struck in 1997 resulted in a significant reduction in planned weapons purchases by several states in that region, and had the added effect of reducing the income of other developing countries dependent on trade with Asian countries. The economic situation in Asia in the last year appears to have stabilized. This improved financial environment has resulted in some important new arms purchases in Asia, but it has not led to full restoration of major arms procurement plans under way in key Asian nations at the time they fell into financial difficulties. Despite the fact that some Latin American states have expressed interest in modernizing older items in their military inventories, domestic budget constraints continue to slow implementation of these programs. The paucity of financing credits and insufficient national funds have also led many developing nations generally to curtail or defer purchases of additional weaponry. In view of the current uncertainties in the international economic environment, it seems likely that most major weapons purchases will be made by more affluent developing countries. The remainder of the arms trade seems likely to be based on significant upgrades of existing weapons systems and equipment, where possible, and on the support and maintenance of these weapons and related equipment.

### **General Trends in Arms Transfers to Developing Nations**

The value of all arms transfer agreements with developing nations in 2000 was \$25.4 billion. This was the highest total, in real terms, since 1994. The total value of new arms transfer agreements with developing nations has increased for the last two years. (**Chart 1, Figure 1, and Table 1A.**) In 2000, the value of all arms deliveries to developing nations (\$19.4 billion) was a substantial decrease from the value of 1999 deliveries values (\$26.2 billion), and the lowest total of the last eight years. (**Charts 7 and 8, Figure 2 and Table 2A.**)

Recently, from 1997-2000, the United States, Russia, and France have dominated the arms market in the developing world, with the United States ranking first each of the last three years in the value of arms transfer agreements. From 1997-2000, the United States made nearly \$31.5 billion in arms transfer agreements with developing nations, 37.2 percent of all such agreements. Russia, the second leading supplier during this period, made nearly \$16.8 billion in arms transfer agreements or 19.8 percent. France, the third leading supplier, made over \$9.7 billion or 11.5 percent of all such agreements with developing nations during these years. In the earlier period (1993-1996) the United States ranked first with nearly \$35.8 billion in arms transfer agreements with developing nations or 37.1 percent; France made over \$17.9 billion in agreements or 18.6



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percent. Russia made nearly \$16.3 billion in arms transfer agreements during this period or 16.9 percent. (**Table 1A and Figure 1.**)

During the period from 1993-2000, most arms transfers to developing nations were made by two to three major suppliers in any given year. The United States has ranked either first or second among these suppliers nearly every year from 1993-2000. The exception was 1997 when the U.S. ranked a close third to Russia. France has been a consistent competitor for the lead in arms transfer agreements with developing nations, ranking first in 1994 and 1997, and second in 1993, 1995, and 1998, while Russia has ranked first in 1995, and second in 1996, 1997, 1999 and 2000. Despite Russia's recent successes in securing new arms orders, as competition over the international arms market intensifies, France seems more likely to rank higher in arms deals with developing nations than Russia. As a supplier nation, Russia has more significant limitations in its prospective arms client base than other major suppliers. A close review of Russia's largest value arms agreements in recent years shows they have been with two principal clients, India and China, and not with a notably expanding number of nations elsewhere in the developing world.

Arms suppliers like the United Kingdom and Germany, from time to time, may conclude significant orders with developing countries, based on either long-term supplying relationships or the arms suppliers having specialized weapons systems they will readily provide. However, as the 21st century begins, the United States seems best positioned to lead in new arms agreements with developing nations. New and very costly weapons purchases from individual developing countries seem likely to be sporadic in the near term. The overall level of the arms trade with developing nations is likely to remain generally static for the foreseeable future, despite some notable purchases made in the last two years. Annual sales totals with developing countries appear likely to be notably below those of the Persian Gulf war period.

Other suppliers in the tier below the United States, France, and Russia, such as China, other European, and non-European suppliers, have been participants in the arms trade with developing nations at a much lower level. These suppliers are, nonetheless, capable of making an occasional arms deal of a significant nature. Yet most of their annual arms transfer agreements values totals during 1993-2000 are comparatively low, and based upon smaller transactions. Few of these countries are likely to be major suppliers of advanced weaponry on a sustained basis. With some exceptions, most of them are more likely to make sales of less sophisticated and less expensive military equipment. (**Tables 1A, 1F, 1G, 2A, 2F and 2G.**)

## **United States**

In 2000, the total value, in real terms, of United States arms transfer agreements with developing nations rose to \$12.6 billion from about \$8.7 billion in 1999. The U.S. share of the value of all such agreements was 49.7 percent in 2000, a significant increase from 36.6 percent in 1999. (**Charts 1, 3 and 4, Figure 1, Tables 1A and 1B.**)

The value of U.S. arms transfer agreements with developing nations was very high in 2000. This is primarily due to major purchases by key U.S. clients in the Near East, and to a much lesser extent in Asia. These arms agreement totals also reflect a continuation of well established defense support arrangements with these purchasers. U.S. agreements with these buyers in 2000 include not only the highly visible sales of major weapons systems, but also the upgrading of existing ones, and agreements for a wide variety of spare parts, ammunition, ordnance, training, and support services. Among major weapons systems sold by the United States in 2000 were 80 new production F-16 block 60 combat fighter aircraft to the United Arab Emirates through a licensed commercial agreement with a value of \$6.432 billion. This agreement with the U.A.E. is the one of the largest combat aircraft sales ever made by the United States, and accounts for a substantial portion of the overall total of U.S. arms transfer agreements with the developing world in 2000.

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Other United States sales to the Near East region in 2000 included agreements to upgrade Egypt's AH-64 Apache helicopters for \$400 million, to provide Egypt with 6 SPS-48E 3D land-based radar systems, as well as with Avenger and Stinger missiles. Israel also ordered the reconfiguration of 24 of its AH-64 Apache helicopters for \$270 million, and signed an agreement for the purchase of 35 Blackhawk helicopters, together with a number of helicopter engines for nearly \$340 million.

In Asia, the United States sold South Korea twenty-nine multiple launch rocket systems (MLRS) for over \$260 million; component kits for South Korea's F-16 C/D fighter aircraft for over \$190 million, and contracted for a number of air and sea-based missiles. Thailand ordered eighteen earlier generation F-16 A/B fighters, and Taiwan ordered AIM-120 AMRAAM air-to-air missiles. These illustrative cases are an important component of the overall U.S. agreements totals for calendar year 2000. It must be emphasized, however, that the sale of munitions, upgrades to existing systems, spare parts, training and support services to developing nations worldwide account for a very substantial portion of total U.S. arms agreements. This is a reflection of the large number of countries in the developing, and developed, world that have acquired and utilize a wide range of American weapons systems, and have a continuing requirement to have these systems supported.

## **Russia**

The total value of Russia's arms transfer agreements with developing nations rose significantly from \$3.2 billion in 1999 to \$7.4 billion in 2000, placing it second in such agreements with the developing world. Russia's share of all developing world arms transfer agreements increased as well, rising from 13.6 percent in 1999 to 29.1 percent in 2000. (**Charts 1, 3 and 4, Figure 1, Tables 1A, 1B, and 1G.**)

Russia's arms transfer agreements totals with developing nations have increased for the last two years, and during the 1997-2000 period, Russia ranked second among all suppliers to developing countries, making \$16.8 billion in agreements. Its arms agreement values ranged from a high of \$7.4 billion in 2000 to a low of \$1.4 billion in 1993 (in constant 2000 dollars). Russia's arms sales totals reflect the continuing effect of the economic and political problems stemming from the breakup of the former Soviet Union. Many of Russia's traditional arms clients are less wealthy developing nations that were once provided generous grant military assistance and deep discounts on arms purchases. Following the dissolution of the Soviet Union in December 1991, Russia did not resume those financing and sales practices. Russia now actively seeks to sell weapons as a means of obtaining hard currency. While some former arms clients in the developing world continue to express interest in obtaining additional Russian weaponry, they have been restricted in doing so by a lack of funds to pay for the armaments they seek. Russia has found it increasingly necessary to agree to licensed production of major weapons systems as a condition of sales with its two principal clients in recent years, India and China. Such agreements with these nations have accounted for a large portion of Russia's arms transfer agreement totals since the mid-1990s.

Russia's efforts to make lucrative new sales of conventional weapons continue to confront significant difficulties, especially since most potential cash-paying arms purchasers have been longstanding customers of the United States or major West European suppliers. These prospective arms buyers have proven reluctant to replace their weapons inventories with unfamiliar non-Western armaments when newer versions of existing equipment are readily available from their traditional suppliers, even in an era of intense competition. The difficult transition Russia has attempted to make from the state supported and controlled industrial system of the former Soviet Union has also led some potential arms customers to question whether the

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Russian defense industries can be reliable suppliers of the spare parts and support services necessary for the maintenance of weapons systems they sell abroad.

Yet because Russia has had a wide variety of weaponry to sell, from the most basic to the highly sophisticated, and despite the internal problems evident in the Russian defense industrial sector, various developing countries still view Russia as a potential source of their military equipment. Russia, therefore, has made strong efforts to gain arms agreements with developing nations that can pay cash for their purchases, and Russian sales since 1995 indicate that Russia has had varying degrees of success in doing so. After 1995, Russia has made smaller arms deals with Kuwait and the United Arab Emirates for armored fighting vehicles and with Malaysia for MiG-29 fighter aircraft. In 2000, Russia concluded a \$500 million agreement with the U.A.E. for the Pantsir S-1 air defense missile system. Iran, primarily due to its own economic difficulties (as well as U.S. pressure on Russia), was not a major purchaser of arms from the Russians after 1995. Iran had been a primary purchaser of Russian armaments in the early 1990s, receiving such items as MiG-29 fighter aircraft, Su-24 fighter-bombers, T-72 tanks, and Kilo class attack submarines. In late 2000, Russia served public notice that it again intended to pursue major arms sales with Iran, despite objections from the United States. Iraq was once a major purchaser of advanced weaponry from Russia, but has not been a source of orders since the Persian Gulf war. Russia clearly would pursue new major weapons deals with Iraq if current U.N. sanctions on Iraq that ban Iraqi arms purchases are lifted.

Russia's principal arms clients since 1994 have been India and China. Among Russia's notable arms deals during recent years has been the sale of 40 new Su-30MK fighter aircraft to India. Elements of a longer range plan for procurement as well as co-production of a number of advanced Russian weapons systems were agreed to with India in 1999 and 2000. These agreements are likely to result in significant aircraft, missile, and naval craft agreements and deliveries to the Indian government in the years to come. In late 2000, Russia concluded a licensed production agreement with India valued in excess of \$3 billion for 140 Su-30MKI combat aircraft. It also concluded an agreement for the sale to India of 310 T-90 main battle tanks for about \$700 million, and an agreement to retrofit and deliver the Admiral Gorshkov aircraft carrier for over \$650 million. Russia's arms supplying relationship with China began to mature in 1994. By 1996 Russia had sold China at least 72 Su-27 fighter aircraft as well as four Kilo class attack submarines. Subsequently, a licensed production agreement was finalized between Russia and China, permitting the Chinese to coproduce at least 200 Su-27 aircraft. Russia also sold China two Sovremenny-class destroyers, with associated missile systems. In 1999, the Chinese purchased between 40 to 60 Su-30 multi-role fighter aircraft for an estimated \$2 billion, and deals for future procurement of other weapons systems were agreed to in principle. In late 2000, Russia concluded an agreement with China to purchase at least four upgraded Russian Mainstay airborne early warning aircraft, designated the A-50E, for about \$1 billion. Given this recent history, it seems likely that India and China will continue to figure significantly in Russia's arms export program for some years to come.

## **China**

China emerged as an important arms supplier to certain developing nations in the 1980s, primarily due to arms agreements made with both combatants in the Iran-Iraq war. From 1993 through 2000, the value of China's arms transfer agreements with developing nations has averaged about \$970 million annually. During the period of this report, the value of China's arms transfer agreements with developing nations reached its peak in 1999 at \$2.7 billion. Its sales figures that year resulted generally from several smaller valued weapons deals in Asia, Africa, and the Near East, rather than one or two especially large sales of major weapons systems. In 2000, China's arms transfer agreements total was \$400 million. Pakistan continues as a key Chinese

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client. China, more recently, has become a major purchaser of arms, primarily from Russia. (Tables 1A, and 1G, and Chart 3.)

Since the late 1980s, few clients with financial resources have sought to purchase Chinese military equipment, much of which is less advanced and sophisticated than weaponry available from Western suppliers and Russia. China did supply Silkworm anti-ship missiles to Iran, as well as other less advanced conventional weapons. Yet China does not appear likely to be a major supplier of conventional weapons in the international arms market in the foreseeable future, since more sophisticated weaponry is available from other suppliers such as Russia, or major Western weapons exporters. Reports persist in various publications that China has sold surface-to-surface missiles to Pakistan, a long-standing client. Iran and North Korea have also reportedly received Chinese missile technology. These reports raise important questions about China's stated commitment to the restrictions on missile transfers set out in the Missile Technology Control Regime (MTCR), including its pledge not to assist others build missiles that could deliver nuclear weapons. With a need for hard currency, and some military products (especially missiles) that some developing countries would like to acquire, China can present an important obstacle to efforts to stem proliferation of advanced missile systems to some areas of the developing world where political and military tensions are significant.

### **Major West European Suppliers**

The four major West European suppliers (France, United Kingdom, Germany, and Italy), as a group, registered a decline in their collective share of all arms transfer agreements with developing nations between 1999 and 2000. This group's share fell from 15.4 percent in 1999 to 12.2 percent in 2000. The collective value of this group's arms transfer agreements with developing nations in 2000 was \$3.1 billion compared with a total of over \$3.6 billion in 1999. Of these four, France was the leading supplier with \$2.1 billion in agreements in 2000, a notable increase from \$312 million in 1999. The French agreement total in 2000 was primarily attributable to the sale to Singapore of six Lafayette class frigates (as well as an associated missiles package) for about \$1.5 billion. France also sold India 10 Mirage 2000H fighter aircraft for about \$300 million. Germany registered a significant decline in arms agreements from about \$2.1 billion in 1999 to \$1 billion in 2000. Germany's total in 2000 was principally due to a sale to South Korea of three Type 214 diesel-electric submarines. Both the United Kingdom and Italy also registered a notable decline in their respective arms transfer agreements with developing nations from 1999 to 2000, both falling from over \$620 million in 1999 to essentially nil in 2000. (Charts 3 and 4, Tables 1A and 1B.)

The four major West European suppliers, collectively, held about a 25.8 percent share of all arms transfer agreements with developing nations during the period from 1993-2000. Since the end of the Persian Gulf war, the major West European suppliers have generally maintained a notable share of arms transfer agreements. For the 1997-2000 period, they collectively held 21.6 percent of all arms transfer agreements with developing nations (\$18.2 billion). Individual suppliers within the major West European group have had notable years for arms agreements, especially France in 1993, 1994, and 1997 (\$4.6 billion, \$9.4 billion, and \$4.7 billion respectively). The United Kingdom also had large agreement years in 1993 and 1996 (\$2.7 billion and \$3 billion respectively). Germany's 1999 agreement total of \$2.1 billion was its highest over the last eight years, although it has concluded arms agreements totaling at least \$1 billion for the last three years. For each of these three nations, large agreement totals in one year have usually reflected the conclusion of very large arms contracts with one or more major purchasers in that particular year. (Tables 1A and 1B.)

The major West European suppliers have had their competitive position in weapons exports enhanced by traditionally strong government marketing support for foreign arms sales. Since they

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can produce both advanced and basic air, ground, and naval weapons systems, the four major West European suppliers have competed successfully for arms sales contracts with developing nations against both the United States, which has tended to sell to several of the same clients, and with Russia, which has sold to nations not traditional customers of the U.S. The continuing demand for U.S. weapons in the global arms marketplace has created a more difficult environment for individual West European suppliers to secure large new contracts with developing nations on a sustained basis. Consequently, some of these suppliers in future years may choose not to compete for some sales of certain types of weapons systems, even reducing or eliminating some categories of items they have been producing. Instead, they may seek to join increasing numbers of joint production ventures with other key European weapons suppliers or even purchasing countries in an effort to sustain major sectors of their individual defense industrial bases. The recent trend toward mergers of various European defense firms has encouraged more joint ventures of this kind.

### **Regional Arms Transfer Agreements**

The Persian Gulf War from August 1990-February 1991 played a major role in further stimulating already high levels of arms transfer agreements with nations in the Near East region. The war created new demands by key purchasers such as Saudi Arabia, Kuwait, the United Arab Emirates, and other members of the Gulf Cooperation Council (GCC), for a variety of advanced weapons systems. These demands were not only a response to Iraq's aggression against Kuwait, but a reflection of concerns regarding perceived threats from a potentially hostile Iran. In Asia, efforts in several countries focused on upgrading and modernizing defense forces have led to important new conventional weapons sales in that region. Russia also, in the 1990s, developed a significant role as the principal supplier of advanced conventional weaponry to China, while maintaining its position as principal supplier to India. The data on regional arms transfer agreements from 1993-2000 continue to reflect the primacy of developing nations in the Near East and Asia regions as customers for conventional armaments.

#### **Near East**

The Near East has generally been the largest arms market in the developing world. In 1993-1996, it accounted for 54.6 percent of the total value of all developing nations arms transfer agreements (\$46 billion in current dollars). During 1997-2000, the region accounted for 47.2 percent of all such agreements (\$38.4 billion in current dollars). (**Tables 1C and 1D.**)

The United States dominated arms transfer agreements with the Near East during the 1993-2000 period with 55.2 percent of their total value (\$46.5 billion in current dollars). France was second during these years with 22.8 percent (\$19.2 billion in current dollars). Recently, from 1997-2000, the United States accounted for 60.9 percent of arms agreements with this region (\$23.4 billion in current dollars), while France accounted for 16.2 percent of the region's agreements (\$6.2 billion in current dollars), representing most of the arms transfer agreements by the major West European suppliers with the Near East. (**Tables 1C and 1E.**)

#### **Asia**

Asia has generally been the second largest developing world arms market. In the earlier period (1993-1996), Asia accounted for 36.1 percent of the total value of all arms transfer agreements with developing nations (\$30.3 billion in current dollars). During 1997-2000, the region accounted for 37.6 percent of all such agreements (\$30.5 billion in current dollars). (**Tables 1C and 1D.**)

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In the earlier period (1993-1996), Russia ranked first in the value of arms transfer agreements with Asia with 35.3 percent. The United States ranked second with 21.2 percent. The major West European suppliers, as a group, made 23.7 percent of this region's agreements in 1993-1996. In the later period (1997-2000), Russia ranked first in Asian agreements with 40.7 percent, primarily due to major combat aircraft sales to India and China. The United States ranked second with 19 percent. The major West European suppliers, as a group, made 23 percent of this region's agreements in 1997-2000. (**Table 1E.**)

### **Leading Developing Nations Arms Purchasers**

Saudi Arabia has been, by a clear margin, the leading developing world arms purchaser from 1993-2000, making arms transfer agreements totaling \$24.5 billion during these years (in current dollars). In the 1993-1996 period, the value of its arms transfer agreements was high (\$18.8 billion in current dollars), ranking first for that period. From 1997-2000, however, the total value of Saudi Arabia's arms transfer agreements dropped significantly to \$5.7 billion (in current dollars), ranking it fourth for that period. This decline resulted from Saudi debt obligations stemming from the Persian Gulf era, coupled with a significant fall in Saudi revenues caused by the notable decline in the market price of its oil. The total value of all arms transfer agreements with developing nations from 1993-2000 was \$165.2 billion in current dollars. Saudi Arabia alone was responsible for 14.8 percent of all developing world arms transfer agreements during these eight years. In the most recent period, 1997-2000, the United Arab Emirates ranked first in arms transfer agreements with developing nations (\$14 billion in current dollars). India ranked second during these years (\$7.6 billion in current dollars). The U.A.E. from 1997-2000 accounted for 17.2 percent of the value of all developing world arms transfer agreements (\$14 billion out of \$81.2 billion in current dollars). (**Tables 1I and 1J.**)

The values of the arms transfer agreements of the top ten developing world recipient nations in both the 1993-1996 and 1997-2000 periods accounted for the major portion of the total developing nations arms market. During 1993-1996, the top ten recipients collectively accounted for 70.3 percent of all developing world arms transfer agreements. During 1997-2000, the top ten recipients collectively accounted for 72.8 percent of all such agreements. Arms transfer agreements with the top ten developing world recipients, as a group, totaled \$22.9 billion in 2000 or 90 percent of all arms transfer agreements with developing nations in that year. This reflects the continued concentration of major arms purchases by developing nations within a few countries. (**Tables 1I and 1J.**)

The United Arab Emirates ranked first among all developing world recipients in the value of arms transfer agreements in 2000, concluding \$7.4 billion in such agreements. India ranked second in agreements in 2000 at \$4.8 billion. South Korea ranked third with \$2.3 billion in agreements. Six of these top ten recipients were in Asia. (**Table 1J.**) Saudi Arabia was the leading recipient of arms deliveries among developing world recipients in 2000, receiving \$7.3 billion in such deliveries.

Saudi Arabia alone received 37.7 percent of the total value of all arms deliveries to developing nations in 2000. China ranked second in arms deliveries in 2000 with \$1.6 billion. Egypt ranked third with \$1.3 billion. (**Tables 2 and 2J.**)

Arms deliveries to the top ten developing nation recipients, as a group, were valued at \$15.6 billion, or 80.5 percent of all arms deliveries to developing nations in 2000. Six of these top ten recipients were in the Near East. (**Tables 2 and 2J.**)

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## **Weapons Types Recently Delivered to Near East Nations**

Regional weapons delivery data reflect the diverse sources of supply of conventional weaponry available to developing nations. Even though the United States, Russia, and the four major West European suppliers dominate in the delivery of the fourteen classes of weapons examined, it is also evident that the other European suppliers and some non-European suppliers, including China, are capable of being leading suppliers of selected types of conventional armaments to developing nations. (**Table 3.**)

The following is an illustrative summary of weapons deliveries to this region for the period 1997-2000.

### **United States**

93 tanks and self-propelled guns  
1,019 armored personnel carriers and armored cars  
129 supersonic combat aircraft  
56 helicopters  
589 surface-to-air missiles  
57 anti-ship missiles

### **Russia**

350 tanks and self-propelled guns  
600 armored personnel carriers and armored cars  
1 submarine  
20 supersonic combat aircraft  
50 helicopters

### **China**

1 guided missile boat  
300 surface-to-air- missiles  
100 anti-ship missiles

### **Major West European Suppliers**

250 tanks and self-propelled guns  
260 armored personnel carriers and armored cars  
1 major surface combatant  
12 minor surface combatants  
12 guided missile boats  
3 submarines  
30 supersonic combat aircraft  
30 helicopters  
160 anti-ship missiles

### **All Other European Suppliers**

110 artillery  
2 major surface combatants  
3 minor surface combatants  
40 supersonic combat aircraft

### **All Other Suppliers**

530 armored personnel carriers and armored cars  
3 minor surface combatants  
100 anti-ship missiles  
30 surface-to-surface missiles

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Large numbers of major combat systems were delivered to the Near East region from 1997-2000, specifically, tanks and self-propelled guns, armored vehicles, minor surface combatants, artillery pieces, supersonic combat aircraft, helicopters, air defense and anti-ship missiles. The United States made significant deliveries of supersonic combat aircraft to the region. Russia, the United States, and European suppliers in general were the principal suppliers of tanks and self-propelled guns, and APCs and armored cars. Three of these weapons categories – supersonic combat aircraft, helicopters, and tanks and self-propelled guns – are especially costly and are an important portion of the dollar values of arms deliveries of the United States, Russia, and European suppliers to the Near East region during the 1997-2000 period.

The cost of naval combatants is also generally high, and suppliers of such systems during this period had their delivery value totals notably increased due to these transfers. Some of the less expensive weapons systems delivered to the Near East are deadly and can create important security threats within the region. In particular, from 1997-2000, China delivered to the Near East region 100 anti-ship missiles, while the United States delivered 57. China also delivered one guided missile boat to the Near East, while the major West European suppliers collectively delivered 12 guided missile boats and one major surface combatant. Other non-European suppliers delivered 100 anti-ship missiles, and 30 surface-to-surface missiles.

### **United States Commercial Arms Exports**

The United States commercial deliveries data set out below in this report are included in the main data tables for deliveries worldwide and for deliveries to developing nations collectively. They are presented separately here to provide an indicator of their overall magnitude in the U.S. aggregate deliveries totals to the world and to all developing nations. The United States is the only major arms supplier that has two distinct systems for the export of weapons: the government-to-government foreign military sales (FMS) system, and the licensed commercial export system. It should be noted that data maintained on U.S. commercial sales agreements and deliveries are incomplete, and not collected or revised on an on-going basis, making them significantly less precise than those for the U.S. FMS program – which accounts for the overwhelming portion of U.S. conventional arms transfer agreements and deliveries involving weapons systems. There are no official compilations of commercial agreement data comparable to that for the FMS program maintained on an annual basis. Once an exporter receives from the State Department a commercial license authorization to sell – valid for four years – there is no current requirement that the exporter provide to the State Department, on a systematic and ongoing basis, comprehensive details regarding any sales contract that results from the license approval, including if any such contract is reduced in scope or cancelled. Nor is the exporter required to report that no contract with the prospective buyer resulted. Annual commercial deliveries data are obtained from shipper's export documents and completed licenses returned from ports of exit by the U.S. Customs Service to the Office of Defense Trade Controls (PM/DTC) of the State Department, which makes the final compilation of such data. This process for obtaining commercial deliveries data is much less systematic and much less timely than that taken by the Department of Defense for government-to-government FMS transactions. Recently, efforts have been initiated by the U.S. government to improve the timeliness and quality of U.S. commercial deliveries data. The values of U.S. commercial arms deliveries to all nations and deliveries to developing nations for fiscal years 1993-2000, in current dollars, according to the U.S. State Department, were as follows:



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Fiscal Year	Commercial Deliveries (Worldwide)	Commercial Deliveries (to Developing Nations)
1993	\$3,808,000,000	\$701,000,000
1994	3,339,000,000	818,000,000
1995	3,173,000,000	850,000,000
1996	1,563,000,000	418,000,000
1997	1,818,000,000	503,000,000
1998	2,045,000,000	402,000,000
1999	654,000,000	125,000,000
2000	476,000,000	86,000,000

### Summary of Data Trends, 1993-2000

**Tables 1A through 1J** present data on arms transfer agreements with developing nations by major suppliers from 1993-2000. These data show the most recent trends in arms contract activity by major suppliers. Delivery data, which reflect implementation of sales decisions taken earlier, are shown in **Tables 2 through 2J**. **Tables 8A, 8B, 8C and 8D** provide data on worldwide arms transfer agreements from 1993-2000, while **Tables 9, 9A, 9C and 9D** provide data on worldwide arms deliveries during this period. To use these data regarding agreements for purposes other than assessing general trends in seller/buyer activity is to risk drawing conclusions that can be readily invalidated by future events – precise values and comparisons, for example, may change due to cancellations or modifications of major arms transfer agreements. These data sets reflect the comparative order of magnitude of arms transactions by arm suppliers with recipient nations expressed in constant dollar terms, unless otherwise noted.

What follows is a detailed summary of data trends from the tables in the report. The summary statements also reference tables and/or charts pertinent to the point(s) noted.

### Total Developing Nations Arms Transfer Agreement Values

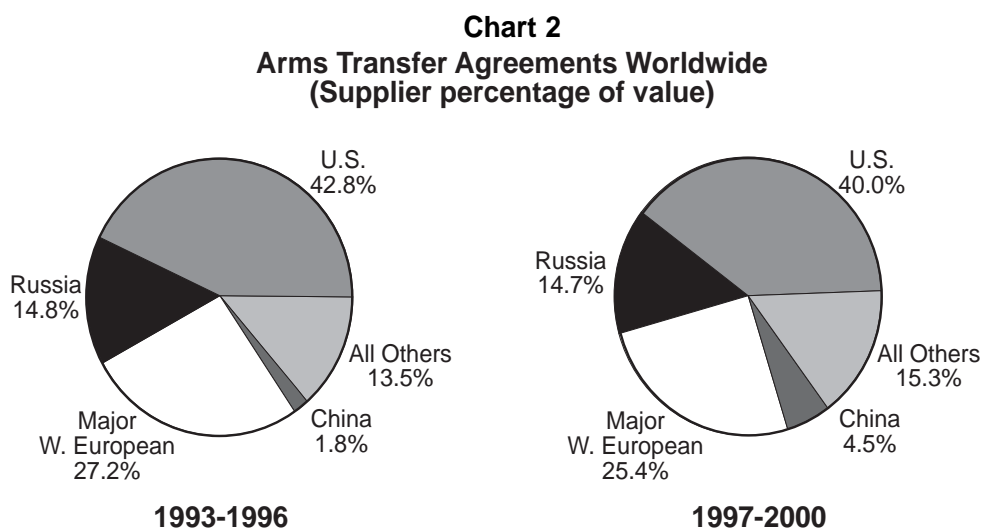
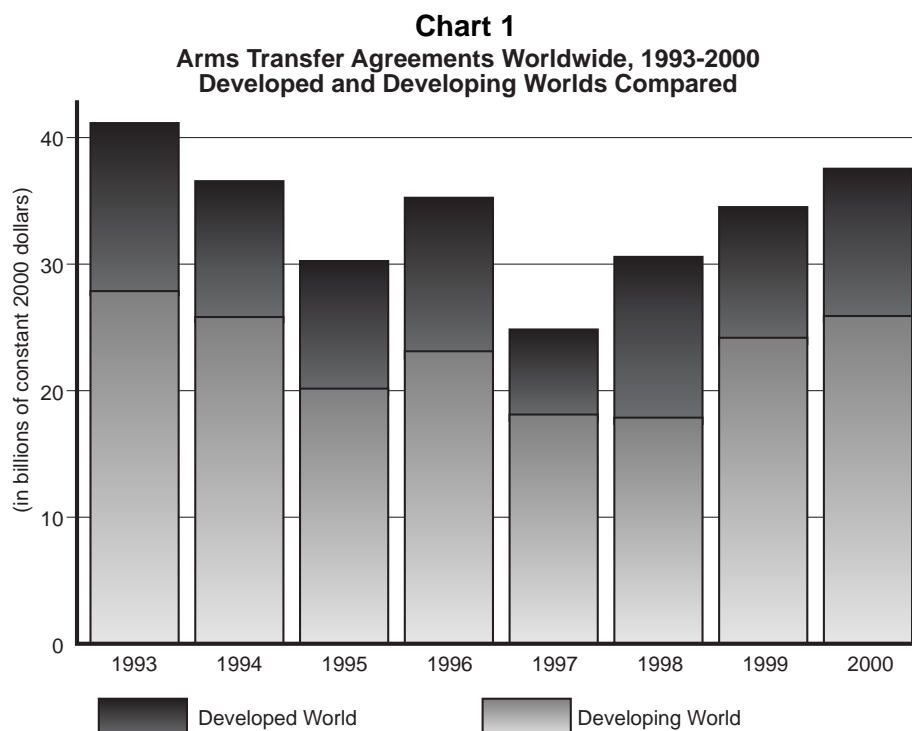
**Table 1A** shows the annual constant U.S. 2000 dollar values of arms transfer agreements with developing nations. Some of the more noteworthy facts reflected by these data are summarized below.

- The value of all arms transfer agreements with developing nations in 2000 was \$25.4 billion. This was the highest total, in real terms, for arms transfer agreements with developing nations since 1994. (**Table 1A and Chart 1**.)
- The total value of United States agreements with developing nations rose from \$8.7 billion in 1999 to \$12.6 billion in 2000. The United States' share of all developing world arms transfer agreements increased from 36.6 percent in 1999 to 49.7 percent in 2000. (**Tables 1A and 1B, and Chart 3**.)
- In 2000, the total value, in real terms, of Russian arms transfer agreements with developing nations increased notably from the previous year, rising from \$3.2 billion in 1999 to \$7.4 billion in 2000. The Russian share of all such agreements rose from 13.6 percent in 1999 to 29.1 percent in 2000. (**Charts 3 and 4, Tables 1A and 1B**.)
- The four major West European suppliers, as a group, (France, United Kingdom, Germany, Italy), registered a decrease in their collective share of all arms transfer agreements with developing nations between 1999 and 2000. This group's share fell from 15.4 percent in 1999 to 12.2 percent in 2000. The collective value of this group's arms transfer agreements with

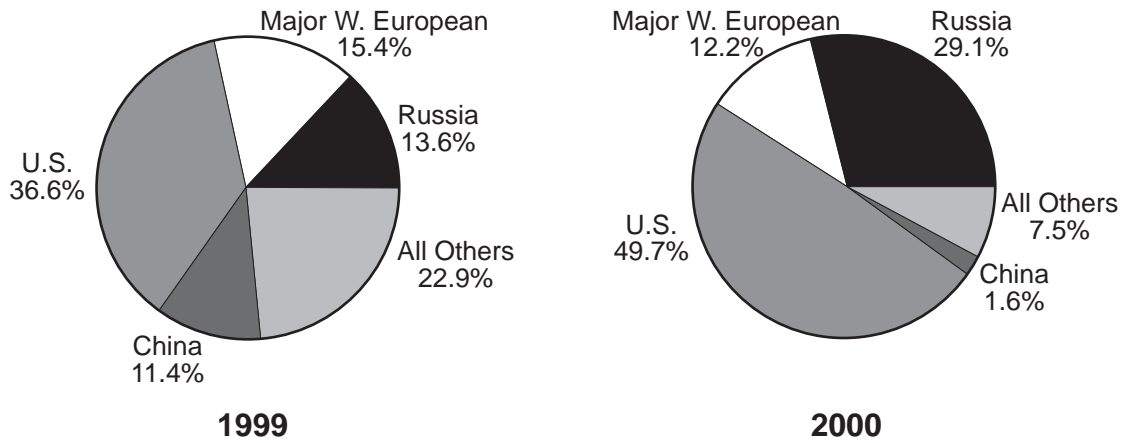
developing nations in 1999 was \$3.6 billion compared with a total of over \$3.1 billion in 2000. (Tables 1A and 1B, and Charts 3 and 4.)

- France registered a notable increase in its share of all arms transfer agreements with developing nations, rising from 1.3 percent in 1999 to 8.3 percent in 2000. The value of its agreements with developing nations rose from \$312 million in 1999 to \$2.1 billion in 2000. (Tables 1A and 1B.)

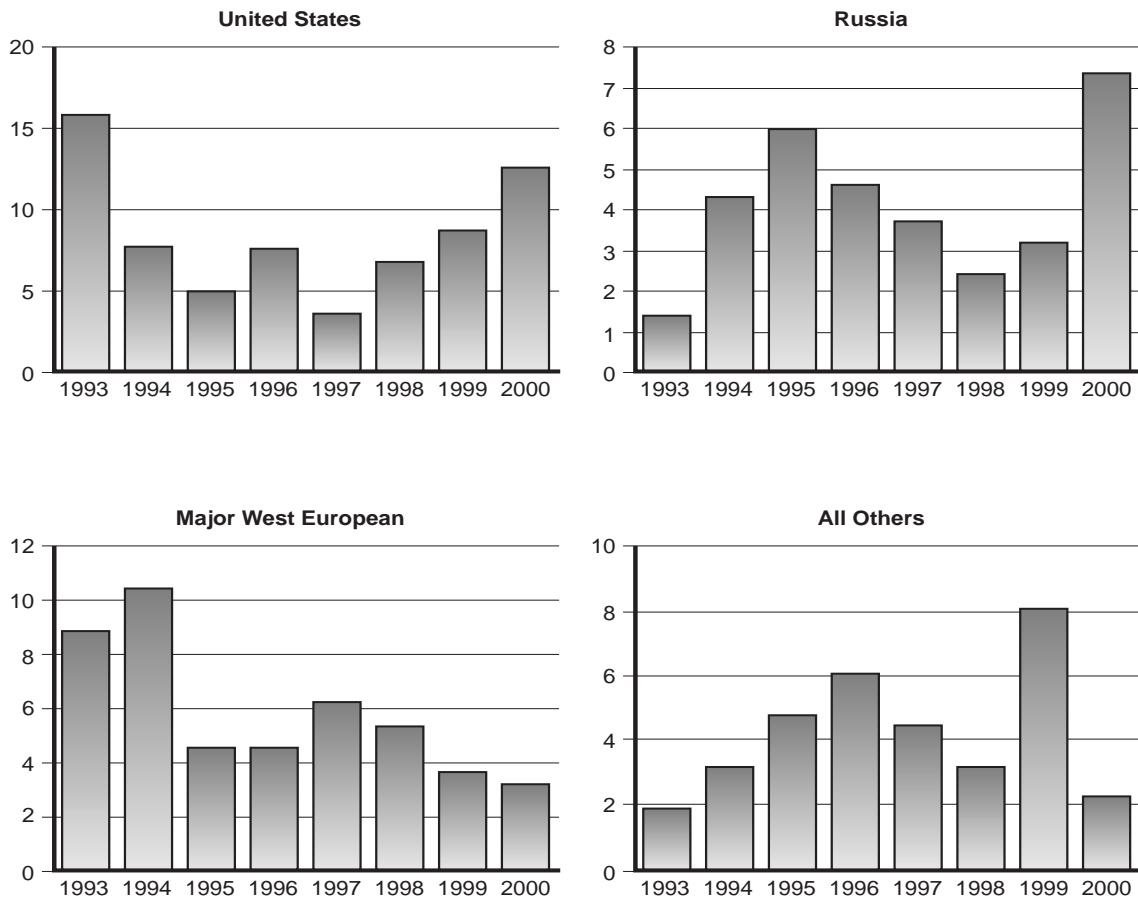
- In 2000, the United States ranked first in arms transfer agreements with developing nations at \$12.6 billion. Russia ranked second at \$7.4 billion, while France ranked third at \$2.1 billion. (Charts 3 and 4, Tables 1A, 1B and 1G.)



**Chart 3**  
**Arms Transfer Agreements with Developing Nations**  
**(Supplier percentage of value)**



**Chart 4**  
**Arms Transfer Agreements with Developing Nations by Major Supplier, 1993-2000**  
**(Billions of constant 2000 dollars)**



**Figure 1**  
**Worldwide Arms Transfer Agreements, 1993-2000**  
**and Suppliers' Share with Developing World**  
(In millions of constant 2000 U.S. dollars)

<b>Supplier</b>	<b>Worldwide Agreements Value 1993-1996</b>	<b>Percentage of Total with Developing World</b>
United States	\$60,932	58.70
Russia	21,089	77.20
France	21,736	82.60
United Kingdom	10,585	68.10
China	2,514	100.00
Germany	3,835	36.80
Italy	2,510	72.80
All Other European	11,587	73.40
All Others	7,588	65.80
<b>Total</b>	<b>142,356</b>	<b>67.70</b>

<b>Supplier</b>	<b>Worldwide Agreements Value 1997-2000</b>	<b>Percentage of Total with Developing World</b>
United States	\$50,054	60.90
Russia	18,431	90.90
France	13,651	71.40
United Kingdom	4,749	58.40
China	5,686	92.50
Germany	11,225	42.60
Italy	2,215	42.90
All Other European	13,528	63.60
All Others	5,570	75.30
<b>Total</b>	<b>125,108</b>	<b>67.60</b>

<b>Supplier</b>	<b>Worldwide Agreements Value 2000</b>	<b>Percentage of Total with Developing World</b>
United States	\$18,562	68.10
Russia	7,700	96.10
France	4,100	51.20
United Kingdom	600	0.00
China	400	100.00
Germany	1,100	90.90
Italy	100	0.00
All Other European	3,100	29.00
All Others	1,200	83.30
<b>Total</b>	<b>36,862</b>	<b>69.00</b>

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## Regional Arms Transfer Agreements, 1993-2000

**Table 1C** gives the values of arms transfer agreements between suppliers and individual regions of the developing world for the periods 1993-1996 and 1997-2000. These values are expressed in current U.S. dollars.<sup>1</sup> **Table 1D**, derived from **Table 1C**, gives the percentage distribution of each supplier's agreement values within the regions for the two time periods. **Table 1E**, also derived from **Table 1C**, illustrates what percentage share of each developing world region's total arms transfer agreements was held by specific suppliers during the years 1993-1996 and 1997-2000.

### Near East

- The Near East has generally been the largest regional arms market in the developing world. In 1993-1996, it accounted for 54.6 percent of the total value of all developing nations arms transfer agreements (\$46 billion in current dollars). During 1996-1999, the region accounted for 47.2 percent of all such agreements (\$38.4 billion in current dollars). (**Tables 1C and 1D**.)

- The United States has dominated arms transfer agreements with the Near East during the 1993-2000 period with 55.2 percent of their total value (\$46.5 billion in current dollars). France was second during these years with 22.8 percent (\$19.2 billion in current dollars). Most recently, from 1997-2000, the United States accounted for 60.9 percent of all arms transfer agreements with the Near East region (\$23.4 billion in current dollars). France accounted for 16.2 percent of agreements with this region (\$6.2 billion in current dollars), representing most of the arms transfer agreements by the major West European suppliers to this region. (**Tables 1C and 1E**.)

- For the period 1993-1996, the United States concluded 74.8 percent of its developing world arms transfer agreements with the Near East. In 1997-2000, the U.S. concluded 76.6 percent of its agreements with this region. (**Table 1D**.)

- For the period 1993-1996, the four major West European suppliers collectively made 64.1 percent of their developing world arms transfer agreements with the Near East. In 1997-2000, the major West Europeans made 40.7 percent of their arms agreements with the Near East. (**Table 1D**.)

- For the period 1993-1996, France concluded 83.9 percent of its developing world arms transfer agreements with the Near East. In 1997-2000, France made 68.1 percent of its agreements with the Near East. (**Table 1D**.) For the period 1993-1996, the United Kingdom concluded 39.7 percent of its developing world arms transfer agreements with the Near East. In 1997-2000, the United Kingdom made 15.4 percent of its agreements with the Near East. (**Table 1D**.)

- For the period 1993-1996, China concluded 27.3 percent of its developing world arms transfer agreements with the Near East. In 1997-2000, China made 28.6 percent of its agreements with the Near East. (**Table 1D**.)

- For the period 1993-1996, Russia concluded 17.5 percent of its developing world arms transfer agreements with the Near East. In 1997-2000, Russia made 16.1 percent of its agreements with the Near East. (**Table 1D**.)

- In the earlier period (1993-1996), the United States ranked first in arms transfer agreements with the Near East with 50.4 percent. France ranked second with 28.3 percent. The

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<sup>1</sup>Because these regional data are composed of four-year aggregate dollar totals, they must be expressed in current dollar terms.

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United Kingdom and Russia tied for third with 5.4 percent each. The major West European suppliers, as a group, made 34.6 percent of this region's agreements in 1993-1996. In the later period (1997-2000), the United States ranked first in Near East agreements with 60.9 percent. France ranked second with 16.2 percent. Russia ranked third with 6.8 percent. The major West European suppliers, as a group, made 18.3 percent of this region's agreements in 1997-2000. (**Table 1E.**)

### **Asia**

- Asia has generally been the second largest arms market in the developing world. In the 1993-1996 period, Asia accounted for 36.1 percent of all arms transfer agreements with developing nations (\$30.3 billion in current dollars). In the more recent period, 1997-2000, it accounted for 37.6 percent of all developing nations arms transfer agreements (\$30.5 billion in current dollars). (**Tables 1C and 1D.**)

- In the earlier period, 1993-1996, Russia ranked first in arms transfer agreements with Asia with 35.3 percent. The United States ranked second with 21.2 percent. The major West European suppliers, as a group, made 23.7 percent of this region's agreements in 1993-1996. In the later period, 1997-2000, Russia ranked first in Asian agreements with 40.7 percent, primarily due to major aircraft and naval vessel sales to India and China. The United States ranked second with 19 percent. The major West European suppliers, as a group, made 23 percent of this region's agreements in 1997-2000. (**Table 1E.**)

### **Latin America**

- In the earlier period, 1993-1996, the United States ranked first in arms transfer agreements with Latin America with 24.9 percent. Russia, the United Kingdom and Italy tied for second with 7.7 percent each. The major West European suppliers, as a group, made 25 percent of this region's agreements in 1993-1996. In the later period, 1997-2000, the United States ranked first with 36.3 percent. France ranked second with 8.7 percent. Russia was third with 5.8 percent. The major West European suppliers, as a group, made 11.6 percent of this region's agreements in 1997-2000. Latin America registered a notable decline in the total value of its arms transfer agreements from 1993-1996 to 1997-2000, falling from about \$5.2 billion in the earlier period to \$3.5 billion in the latter. (**Tables 1C and 1E.**)

### **Africa**

- In the earlier period, 1993-1996, Russian ranked first in agreements with Africa with 26.1 percent (\$700 million in current dollars). France and China tied for second with 7.5 percent each. The major West European suppliers, as a group, made 14.9 percent of the region's agreements in 1993-1996. The United States made 3 percent. In the later period, 1997-2000, Germany ranked first in agreements with 22.5 percent (\$2 billion). China ranked second with 12.4 percent (\$1.1 billion). The major West European suppliers, as a group, made 31.5 percent of this region's agreements in 1997-2000. All other European suppliers collectively made 36 percent (\$3.2 billion). The United States made 1.1 percent. Africa registered a significant increase in the total value of its arms transfer agreements from 1993-1996 to 1997-2000, rising from \$2.7 billion in the earlier period to \$8.9 billion in the latter (in current dollars). The notable rise in the level of arms agreements reflected, to an important degree, South Africa's new defense procurement program. (**Tables 1C and 1E.**)

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## **Arms Transfer Agreements With Developing Nations, 1993-2000: Leading Suppliers Compared**

**Table 1F** gives the values of arms transfer agreements with the developing nations from 1993-2000 by the top eleven suppliers. The table ranks these suppliers on the basis of the total current dollar values of their respective agreements with the developing world for each of three periods – 1993-1996, 1997-2000 and 1993-2000. Among the facts reflected in this table are the following:

- The United States ranked first among all suppliers to developing nations in the value of arms transfer agreements from 1997-2000 (\$30.5 billion), and first for the entire period from 1993-2000 (\$61.5 billion).
- Russia ranked second among all suppliers to developing nations in the value of arms transfer agreements from 1997-2000 (\$16.2 billion), and second from 1993-2000 (\$30.5 billion).
- France ranked third among all suppliers to developing nations in the value of arms transfer agreements from 1997-2000 (\$9.2 billion), and third from 1993-2000 (\$24.7 billion).
- The United Kingdom ranked sixth among all suppliers to developing nations in the value of arms transfer agreements from 1997-2000 (\$2.6 billion), but fourth from 1993-2000 (\$8.9 billion).
- China ranked fourth among all suppliers to developing nations in the value of arms transfer agreements from 1997-2000 (\$5 billion), and fifth from 1993-2000 (\$7.2 billion).

## **Arms Transfer Agreements With Developing Nations in 2000: Leading Suppliers Compared**

**Table 1G** ranks and gives for 2000 the arms transfer agreements values with developing nations of the top eleven suppliers in current U.S. dollars. Among the facts reflected in this table are the following:

- The United States, Russia and France, the year's top three arms suppliers – ranked by the value of their arms transfer agreements – collectively made agreements in 2000 valued at \$22.1 billion, 87 percent of all arms transfer agreements made with developing nations by all suppliers.
- In 2000, the United States was the clear leader in arms transfer agreements with developing nations, making \$12.6 billion in such agreements, or 47.7 percent of them.
- Russia ranked second and France third in arms transfer agreements with developing nations in 2000, making \$7.4 billion and \$2.1 billion in such agreements respectively.
- Germany ranked fourth in arms transfer agreements with developing nations in 2000, making \$1 billion in such agreements, while Israel ranked fifth with \$600 million.

## **Arms Transfers to Developing Nations, 1993-2000: Agreements With Leading Recipients**

**Table 1I** gives the values of arms transfer agreements made by the top ten recipients of arms in the developing world from 1993-2000 with all suppliers collectively. The table ranks recipients on the basis of the total current dollar values of their respective agreements with all suppliers for each of three periods-1993-1996, 1997-2000 and 1993-2000. Among the facts reflected in this table are the following:

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- Saudi Arabia has been, by a clear margin, the leading developing world purchaser of arms from 1993-2000, making agreements totaling \$24.5 billion during these years. The total value of all arms transfer agreements with developing nations from 1993-2000 was \$165.2 billion in current dollars. Saudi Arabia alone was responsible for over 14.8 percent of all developing world arms transfer agreements during these years. In the most recent period – 1997-2000 – the United Arab Emirates ranked first in arms transfer agreements by developing nations (\$14 billion in current dollars). India ranked second (\$7.6 billion in current dollars). The U.A.E. accounted for 17.2 percent of all developing world arms transfer agreements during this period (\$14 billion out of nearly \$81.2 billion in current dollars). (**Tables 1H, 1I, and 1J.**)

- During 1993-1996, the top ten recipients collectively accounted for 70.3 percent of all developing world arms transfer agreements. During 1997-2000, the top ten recipients collectively accounted for 72.8 percent of all such agreements. (**Tables 1I.**)

### **Arms Transfers to Developing Nations in 2000: Agreements With Leading Recipients**

**Table 1J** names the top ten developing world recipients of arms transfer agreements in 2000. The table ranks these recipients on the basis of the total current dollar values of their respective agreements with all suppliers in 2000. Among the facts reflected in this table are the following:

- The United Arab Emirates ranked first among all developing nations recipients in the value of arms transfer agreements in 2000, concluding \$7.4 billion in such agreements. India ranked second with \$4.8 billion. South Korea ranked third with \$2.3 billion.

- Six of the top ten developing world recipients of arms transfer agreements in 2000 were in Asia. Four were in the Near East.

- Arms transfer agreements with the top ten developing world recipients, as a group, in 2000 totaled \$22.9 billion or 90 percent of all such agreements with the developing world, reflecting a continuing concentration of developing world arms purchases within a few nations. (**Tables 1 and 1J.**)

### **Developing Nations Arms Delivery Values**

**Table 2** shows the annual current dollar values of arms deliveries (items actually transferred) to developing nations by major suppliers from 1993-2000. The utility of these particular data is that they reflect transfers that have occurred. They provide the data from which **Table 2A** (constant dollars) is derived. Some of the more notable facts illustrated by these data are summarized below.

- In 2000 the value of all arms deliveries to developing nations (\$19.4 billion) was a notable decrease in deliveries values from the previous year, (\$26.2 billion in constant 2000 dollars). (**Charts 7 and 8, and Table 2A.**)

- The U.S. share of all deliveries to developing nations in 2000 was 44.8 percent, down from 49.6 percent in 1999. In 2000, the United States, for the eighth year in a row, ranked first in the value of arms deliveries to developing nations (in constant 2000 dollars), reflecting continuing implementation of Persian Gulf War era arms transfer agreements. The United Kingdom's share of all arms deliveries to developing nations in 2000 was 22.7 percent, up from 17.5 percent in 1999. The share of major West European suppliers deliveries to developing nations in 2000 was 31 percent, up slightly from 30.2 percent in 1999. (**Table 2A.**)

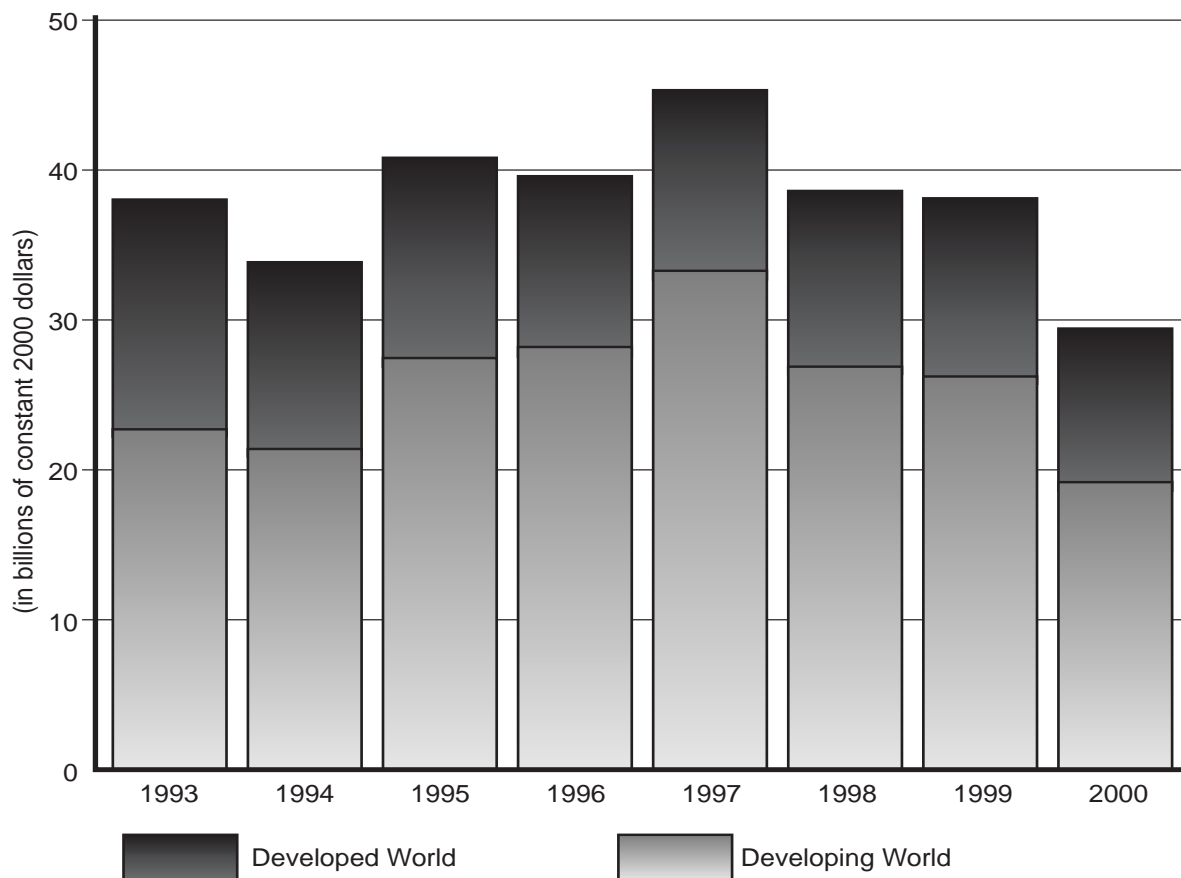


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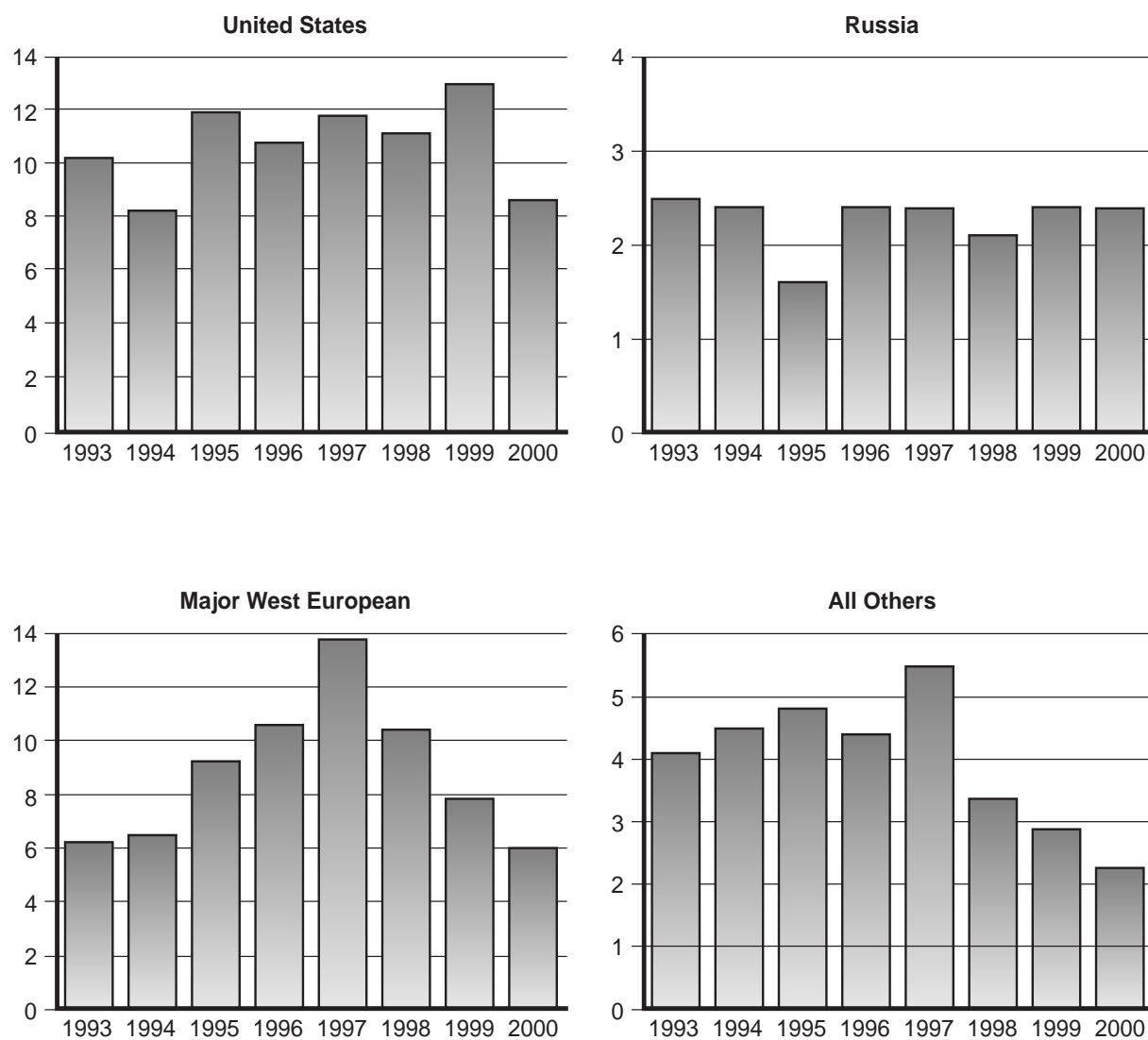
- The total value of all arms deliveries by all suppliers to developing nations from 1997-2000 (\$106.1 billion in constant 2000 dollars) was slightly higher than the value of arms deliveries by all suppliers to developing nations from 1993-1996 (\$100.5 billion in constant 2000 dollars). (**Table 2A.**)

- During the years 1993-2000, arms deliveries to developing nations comprised 68 percent of all arms deliveries worldwide. In 2000, the percentage of arms deliveries to developing nations was 66 percent of all arms deliveries worldwide. (**Tables 2A and 9A and Figure 2.**)

**Chart 7**  
**Arms Deliveries Worldwide, 1993-2000**  
**Developed and Developing Worlds Compared**



**Chart 8**  
**Arms Deliveries to Developing Countries by Major Supplier, 1993-2000**  
 (Billions of constant 2000 dollars)



**Figure 2**  
**Worldwide Arms Deliveries, 1993-2000**  
**and Suppliers' Share with Developing World**  
(In millions of constant 2000 U.S. dollars)

<b>Supplier</b>	<b>Worldwide Deliveries Value 1993-1996</b>	<b>Percentage of Total to Developing World</b>
United States	\$68,006	60.50
Russia	13,406	66.70
France	10,455	69.30
United Kingdom	24,696	84.60
China	3,575	96.70
Germany	8,359	45.20
Italy	1,043	54.70
All Other European	14,405	64.20
All Others	8,832	58.40
<b>Total</b>	<b>152,777</b>	<b>65.80</b>

<b>Supplier</b>	<b>Worldwide Deliveries Value 1997-2000</b>	<b>Percentage of Total to Developing World</b>
United States	\$68,040	65.50
Russia	11,887	78.30
France	18,797	87.70
United Kingdom	21,833	86.50
China	2,537	95.80
Germany	5,568	30.00
Italy	1,586	67.40
All Other European	12,991	68.40
All Others	7,884	36.10
<b>Total</b>	<b>151,123</b>	<b>70.20</b>

<b>Supplier</b>	<b>Worldwide Deliveries Value 2000</b>	<b>Percentage of Total to Developing World</b>
United States	\$14,187	61.20
Russia	3,500	68.60
France	1,500	73.30
United Kingdom	5,100	86.30
China	500	100.00
Germany	800	50.00
Italy	300	33.30
All Other European	2,000	65.00
All Others	1,500	33.30
<b>Total</b>	<b>29,387</b>	<b>66.00</b>

### **Regional Arms Delivery Values, 1993-2000**

**Table 2C** gives the values of arms deliveries by suppliers to individual regions of the developing world for the periods 1993-1996 and 1997-2000. These values are expressed in current U.S. dollars.<sup>2</sup> **Table 2D**, derived from table 2C, gives the percentage distribution of each supplier's deliveries values within the regions for the two time periods. **Table 2C** illustrates what percentage share of each developing world region's total arms delivery values was held by

<sup>2</sup>Because these regional data are composed of four-year aggregate dollar totals, they must be expressed in current dollar terms.

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specific suppliers during the years 1993-1996 and 1997-2000. Among the facts reflected in these tables are the following:

### **Near East**

- The Near East has generally led in the value of arms deliveries received by the developing world. In 1993-1996, it accounted for 59.2 percent of the total value of all developing nations deliveries (\$48.6 billion in current dollars). During 1997-2000 the region accounted for 57.3 percent of all such deliveries (\$57.7 billion in current dollars). (**Tables 2C and 2D.**)
- For the period 1993-1996, the United States made 67.7 percent of its developing world arms deliveries to the Near East region. In 1997-2000, the United States made 62.3 percent of its developing world arms deliveries to the Near East region. (**Table 2D.**)
- For the period 1993-1996, the United Kingdom made 75.2 percent of its developing world arms deliveries to the Near East region. In 1997-2000, the United Kingdom made 83.8 percent of its developing world arms deliveries to the Near East region. (**Table 2D.**)
- For the period 1996-2000, 66.2 percent of France's arms deliveries to the developing world were to the Near East region. In the more recent period, 1997-2000, 41.6 percent of France's developing world deliveries were to nations of the Near East region. (**Table 2D.**)
- For the period 1993-1996, Russia made 36.5 percent of its developing world arms deliveries to the Near East region. In 1997-2000, Russia made 27.3 percent of such deliveries to the Near East. (**Table 2D.**)
- In the earlier period, 1993-1996, the United States ranked first in the value of arms deliveries to the Near East with 49.8 percent (nearly \$24.2 billion in current dollars). The United Kingdom ranked second with 18.7 percent (\$9.1 billion in current dollars). France ranked third with 8.8 percent (\$4.3 billion in current dollars). The major West European suppliers, as a group, held 28.6 percent of this region's delivery values in 1993-1996. In the later period (1997-2000), the United States ranked first in Near East delivery values with 45.8 percent (\$26.4 billion in current dollars). The United Kingdom ranked second with 26 percent (\$15 CRS-35 billion in current dollars). France ranked third with 11.1 percent (\$6.4 billion in current dollars). The major West European suppliers, as a group, held 39.2 percent of this region's delivery values in 1997-2000.

### **Asia**

- The Asia region has generally ranked second in the value of arms deliveries from most suppliers in both time periods. In the earlier period, 1993-1996, 30.6 percent of all arms deliveries to developing nations were to those in Asia (\$25.1 billion in current dollars). In the later period, 1997-2000, Asia accounted for 36 percent of such arms deliveries (\$36.2 billion in current dollars). For the period 1997-2000, Italy made 72.7 percent of its developing world deliveries to Asia. Russia made 60.2 percent of its developing world arms deliveries to Asia. France made 57.1 percent, while China made 41.7 percent of their developing world deliveries to Asia. (**Tables 2C and 2D.**)
- In the period from 1993-1996, the United States ranked first in the value of arms deliveries to Asia with 35.9 percent. Russia ranked second with 17.9 percent. The United Kingdom ranked third with 10.8 percent. The major West European suppliers, as a group, held 28.3 percent of this region's delivery values in 1993-1996. In the later period, 1997-2000, the United States ranked first in Asian delivery values with 40.1 percent. France ranked second with

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24.3 percent. Russia ranked third with 14.6 percent. The major West European suppliers, as a group, held 34.8 percent of this region's delivery values in 1997-2000.

### **Latin America**

- In the earlier period, 1993-1996, the value of all arms deliveries to Latin America was \$5.1 billion. The United States ranked first in the value of arms deliveries to Latin America with 47.1 percent (\$2.4 billion). Russia and France tied for second with 5.9 percent (\$300 million each). The major West European suppliers, as a group, held 13.7 percent of this region's delivery values in 1993-1996. In the later period, 1997-2000, the United States ranked first in Latin American delivery values with 39.7 percent (\$1.4 billion). Russia ranked second with 8.6 percent. The major West European suppliers, as a group, held 17.2 percent of this region's delivery values in 1997-2000. During 1997-2000, the value of all arms deliveries to Latin America was \$3.5 billion, a notable decline from the \$5.1 billion deliveries total for 1993-1996. (**Table 2C.**)

### **Africa**

- In the earlier period, 1993-1996, the value of all arms deliveries to Africa was \$3.3 billion. Russia ranked first in the value of arms deliveries to Africa with 18 percent (\$600 million). The major West European suppliers, as a group, held 15 percent of this region's delivery values in 1993-1996. France alone made 12 percent. The United States made 4 percent. In the later period, 1997-2000, Russia ranked first in African delivery values with 24.3 percent (\$800 million). China ranked second with 18.3 percent (\$600 million). The major West European suppliers, as a group, held 6.1 percent. The United States made 2.7 percent. The other European suppliers collectively held 33.5 percent (\$1.1 billion in current dollars). During this later period, the value of all arms deliveries to Africa remained essentially the same at roughly \$3.3 billion. (**Table 2C.**)

### **Arms Deliveries to Developing Nations, 1993-2000: Leading Suppliers Compared**

**Table 2F** gives the values of arms deliveries to developing nations from 1993-2000 by the top eleven suppliers. The table ranks these suppliers on the basis of the total current dollar values of their respective deliveries to the developing world for each of three periods: 1993-1996, 1997-2000 and 1993-2000. Among the facts reflected in this table are the following:

- The United States ranked first among all suppliers to developing nations in the value of arms deliveries from 1997-2000 (\$42.5 billion), and first for the entire period from 1993-2000 (\$78.4 billion).
- The United Kingdom ranked second among all suppliers to developing nations in the value of arms deliveries from 1997-2000 (\$18 billion), and second for the entire period from 1993-2000 (\$37.2 billion).
- France ranked third among all suppliers to developing nations in the value of arms deliveries from 1993-2000 (\$15.5 billion), and third for the entire period from 1993-2000 (\$21.9 billion).

### **Arms Deliveries With Developing Nations in 2000: Leading Suppliers Compared**

**Table 2G** ranks and gives for 2000 the values of arms deliveries to developing nations of the top eleven suppliers in current U.S. dollars. Among the facts reflected in this table are the following:

- 
- 
- The United States, the United Kingdom and Russia, the year's top three arms suppliers – ranked by the value of their arms deliveries – collectively made deliveries in 2000 valued at \$15.5 billion, 79.9 percent of all arms deliveries made to developing nations by all suppliers.
  - In 2000, the United States ranked first in the value of arms deliveries to developing nations, making \$8.7 billion in such agreements, or 44.8 percent of them.
  - The United Kingdom ranked second and Russia third in deliveries to developing nations in 2000, making \$4.4 billion and \$2.4 billion in such deliveries respectively.
  - France ranked fourth in arms deliveries to developing nations in 2000, making \$1.1 billion in such deliveries, while China ranked fifth with \$500 million.

### **Arms Deliveries to Near East, 1993-2000: Suppliers and Recipients**

**Table 2H** gives the values of arms delivered to Near East nations by suppliers or categories of suppliers for the periods 1993-1996 and 1997-2000. These values are expressed in current U.S. dollars. They are a subset of the data contained in **Tables 2 and 2C**. Among the facts reflected by this table are the following:

- For the most recent period, 1997-2000, the principal arms recipients of the United States in the Near East region, based on the value of their arms deliveries were Saudi Arabia (\$16.2 billion), Israel (\$3.9 billion), Egypt (\$3.6 billion), Kuwait (\$1.5 billion). The principal arms recipients of Russia were Iran (\$800 million), Algeria (\$500 million), and the U.A.E. (\$400 million). The principal arms recipient of China was Iran (\$400). The principal arms recipients of the four major West European suppliers, as a group, were Saudi Arabia (\$15.4 billion), the U.A.E. (\$2.6 billion), Qatar (\$1.7 billion), and Kuwait (\$1.2 billion). The principal arms recipient of all other European suppliers collectively was Saudi Arabia (\$2.4 billion). The principal arms recipient of all other suppliers, as a group, was Israel (\$200 million).
- For the period 1997-2000, Saudi Arabia received \$34 billion in arms deliveries. Its principal suppliers were the United States (\$16.2 billion), are the four major West Europeans, as a group (\$15.4 billion). Israel received \$5 billion in arms deliveries. Its principal supplier was the United States (\$3.9 billion). The U.A.E. received \$4.2 billion in arms deliveries. Its principal suppliers were the four major West Europeans, as a group, (\$2.6 billion). Egypt received \$4 billion in arms deliveries. Its principal supplier was the United States (\$3.6 billion). Kuwait received \$3 billion in arms deliveries. Its principal suppliers were the United States (\$1.5 billion), and the four major West Europeans, collectively, (\$1.2 billion). Iran received \$1.7 billion in arms deliveries. Its principal suppliers were Russia (\$800 million) and China (\$400 million).
- The value of United States arms deliveries to Saudi Arabia increased notably from \$12.1 billion in 1993-1996 to \$16.2 billion in 1997-2000, as various items ordered during the Persian Gulf war era continued to be delivered.
- The value of Russian arms deliveries to Iran declined from the 1993-1996 period to the 1997-2000 period. Russian arms deliveries fell from \$1.3 billion to \$800 million.
- Arms deliveries to Iran dropped notably from 1993-1996 to 1997-2000, falling from \$2.6 billion in 1993-1996 to \$1.7 billion in 1997-2000. Russia and China collectively delivered 70.6 percent of Iran's arms during the 1997-2000 period (\$1.2 billion).

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## Arms Deliveries to Developing Nations, 1993-2000: The Leading Recipients

**Table 2I** gives the values of arms deliveries made to the top ten recipients of arms in the developing world from 1993-2000 by all suppliers collectively. The table ranks recipients on the basis of the total current dollar values of their respective deliveries from all suppliers for each of three periods-1993-1996, 1997-2000 and 1993-2000. Among the facts reflected in this table are the following:

- Saudi Arabia and Taiwan were the top two developing world recipients of arms from 1993-2000, receiving deliveries valued at \$65.9 billion and \$21 billion, respectively, during these years. The total value of all arms deliveries to developing nations from 1993-2000 was \$190.2 billion in current dollars. (**Table 2.**) Thus, Saudi Arabia and Taiwan were responsible for 34.6 percent and 11 percent, respectively, of all developing world deliveries during these years – together 45.6 percent of the total. In the most recent period – 1997-2000 – Saudi Arabia and Taiwan ranked first and second in the value of arms received by developing nations (\$34 billion and \$15.4 billion, respectively, in current dollars). Together, Saudi Arabia and Taiwan accounted for 49 percent of all developing world arms deliveries (\$49.4 billion out of nearly \$100.9 billion – the value of all deliveries to developing nations in 1997-2000 (in current dollars).
- For the 1997-2000 period, Saudi Arabia alone received \$34 billion in arms deliveries (in current dollars), or 33.7 percent of all deliveries to developing nations during this period. During 1993-1996, the top ten recipients collectively accounted for 75.7 percent of all developing world arms deliveries.
- During 1997-2000, the top ten recipients collectively accounted for 77.1 percent of all such deliveries. (**Tables 2 and 2I.**)

## Arms Transfers to Developing Nations in 2000: Agreements With Leading Recipients

**Table 2J** names the top ten developing world recipients of arms transfer agreements in 2000. The table ranks these recipients on the basis of the total current dollar values of their respective agreements with all suppliers in 2000. Among the facts reflected in this table are the following:

- Saudi Arabia was the leading recipient of arms deliveries in 2000 among developing nations, receiving \$7.3 billion in such deliveries, or 37.7 percent. China ranked second with \$1.6 billion. Egypt ranked third with \$1.3 billion. (**Tables 2 and 2J.**)
- Arms deliveries in 2000 to the top ten developing nation recipients, collectively, constituted \$15.6 billion, or 80.5 percent of all developing nations deliveries. Six of the top ten arms recipients in the developing world in 2000 were in the Near East region; four were in Asia. (**Tables 2 and 2J.**)

**Table 1A**  
**Arms Transfer Agreements with Developing**  
**Nations, by Supplier, 1993-2000**  
**(In millions of constant 2000 U.S. dollars)**

	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>1993-2000</b>
United States	15,762	7,741	4,753	7,519	3,535	6,670	8,650	12,638	67,268
Russia	1,420	4,283	6,013	4,554	3,695	2,444	3,223	7,400	33,032
France	4,615	9,377	2,723	1,222	4,673	2,657	312	2,100	27,679
United Kingdom	2,722	810	681	2,999	1,087	1,063	624	0	9,986
China	592	695	227	1,000	1,413	744	2,704	400	7,775
Germany	1,183	0	227	0	109	1,594	2,080	1,000	6,193
Italy	355	232	908	333	326	0	624	0	2,778
All Other European	592	1,968	2,723	3,221	1,848	1,382	4,471	900	17,105
All Others	710	579	1,815	1,888	1,196	1,063	936	1,000	9,187
<b>Total</b>	<b>27,951</b>	<b>25,685</b>	<b>20,070</b>	<b>22,736</b>	<b>17,882</b>	<b>17,617</b>	<b>23,624</b>	<b>25,438</b>	<b>181,003</b>

**Table 1B**  
**Arms Transfer Agreements with Developing**  
**Nations, by Supplier, 1993-2000**  
**(Expressed as a percent of total by year)**

	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
United States	56.39%	30.14%	23.68%	33.07%	19.77%	37.86%	36.62%	49.68%
Russia	5.08%	16.68%	29.96%	20.03%	20.66%	13.88%	13.64%	29.09%
France	16.51%	36.51%	13.57%	5.37%	26.14%	15.08%	1.32%	8.26%
United Kingdom	9.76%	3.16%	3.39%	13.19%	6.08%	6.03%	2.64%	0.00%
China	2.12%	2.70%	1.13%	4.40%	7.90%	4.22%	11.44%	1.57%
Germany	4.23%	0.00%	1.13%	0.00%	0.61%	9.05%	8.80%	3.93%
Italy	1.27%	0.90%	4.25%	1.47%	1.82%	0.00%	2.64%	0.00%
All Other European	2.12%	7.66%	13.57%	14.17%	10.33%	7.84%	18.93%	3.54%
All Others	2.54%	2.25%	9.05%	8.30%	6.69%	6.03%	3.96%	3.93%
[Major West European*]	31.75%	40.56%	22.61%	20.03%	34.64%	30.16%	15.41%	12.19%]
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

\*Major West European category includes France, United Kingdom, Germany, Italy.



**Table 1C**  
**Regional Arms Transfer Agreements, by Supplier, 1993-2000**  
(In millions of current U.S. dollars)

	Asia		Near East		Latin America		Africa	
	1993-1996	1997-2000	1993-1996	1997-2000	1993-1996	1997-2000	1993-1996	1997-2000
United States	6,439	5,784	23,150	23,353	1,295	1,253	80	96
Russia	10,700	12,400	2,500	2,600	400	200	700	1,000
France	2,000	2,600	13,000	6,200	300	300	200	0
United Kingdom	3,300	1,700	2,500	400	400	0	100	500
China	1,300	2,400	600	1,400	100	0	200	1,100
Germany	1,000	2,400	100	100	200	0	0	2,000
Italy	900	300	300	300	400	100	100	300
All Other European	2,700	1,100	2,900	2,800	1,300	1,200	600	3,200
All Others	2,000	1,800	900	1,200	800	400	700	700
[Major West European*]	7,200	7,000	15,900	7,000	1,300	400	400	2,800]
<b>Total</b>	<b>30,339</b>	<b>30,484</b>	<b>45,950</b>	<b>38,353</b>	<b>5,195</b>	<b>3,453</b>	<b>2,680</b>	<b>8,896</b>

**Source:** U.S. government

**Note:** All foreign data are rounded to the nearest \$100 million. The United States total for Near East in 1997-2000 includes a \$6.432 billion licensed commercial agreement with the United Arab Emirates in 2000 for 80 F-16 aircraft.

\*Major West European category includes France, United Kingdom, Germany, and Italy.

**Table 1D**  
**Percentage of Each Supplier's Agreements Value by Region, 1993-2000**

	Asia		Near East		Latin America		Africa		Total	
	1993-1996	1997-2000	1993-1996	1997-2000	1993-1996	1997-2000	1993-1996	1997-2000	1993-1996	1997-2000
United States	20.80%	18.97%	74.76%	76.60%	4.18%	4.11%	0.26%	0.31%	100.00%	100.00%
Russia	74.83%	76.54%	17.48%	16.05%	2.80%	1.23%	4.90%	6.17%	100.00%	100.00%
France	12.90%	28.57%	83.87%	68.13%	1.94%	3.30%	1.29%	0.00%	100.00%	100.00%
United Kingdom	52.38%	65.38%	39.68%	15.38%	6.35%	0.00%	1.59%	19.23%	100.00%	100.00%
China	59.09%	48.98%	27.27%	28.57%	4.55%	0.00%	9.09%	22.45%	100.00%	100.00%
Germany	76.92%	53.33%	7.69%	2.22%	15.38%	0.00%	0.00%	44.44%	100.00%	100.00%
Italy	52.94%	30.00%	17.65%	30.00%	23.53%	10.00%	5.88%	30.00%	100.00%	100.00%
All Other European	36.00%	13.25%	38.67%	33.73%	17.33%	14.46%	8.00%	38.55%	100.00%	100.00%
All Others	45.45%	43.90%	20.45%	29.27%	18.18%	9.76%	15.91%	17.07%	100.00%	100.00%
[Major West European*]	29.03%	40.70%	64.11%	40.70%	5.24%	2.33%	1.61%	16.28%	100.00%	100.00%]
<b>Total</b>	<b>36.05%</b>	<b>37.55%</b>	<b>54.60%</b>	<b>47.24%</b>	<b>6.17%</b>	<b>4.25%</b>	<b>3.18%</b>	<b>10.96%</b>	<b>100.00%</b>	<b>100.00%</b>

\*Major West European category includes France, United Kingdom, Germany, and Italy.

**Table 1E**  
**Percentage of Total Agreements Value by Supplier to Regions, 1993-2000**

	<b>Asia</b>		<b>Near East</b>		<b>Latin America</b>		<b>Africa</b>	
	<b>1993- 1996</b>	<b>1997- 2000</b>	<b>1993- 1996</b>	<b>1997- 2000</b>	<b>1993- 1996</b>	<b>1997 2000</b>	<b>1993- 1996</b>	<b>1997 2000</b>
United States	21.22%	18.97%	50.38%	60.89%	24.93%	36.29%	2.99%	1.08%
Russia	35.27%	40.68%	5.44%	6.78%	7.70%	5.79%	26.12%	11.24%
France	6.59%	8.53%	28.29%	16.17%	5.77%	8.69%	7.46%	0.00%
United Kingdom	10.88%	5.58%	5.44%	1.04%	7.70%	0.00%	3.73%	5.62%
China	4.28%	7.87%	1.31%	3.65%	1.92%	0.00%	7.46%	12.37%
Germany	3.3%	7.87%	0.22%	0.26%	3.85%	0.00%	0.00%	22.48%
Italy	2.97%	0.98%	0.65%	0.78%	7.70%	2.90%	3.73%	3.37%
All Other European	8.90%	3.61%	6.31%	7.30%	25.02%	34.75%	22.39%	35.97%
All Others	6.59%	5.90%	1.96%	3.13%	15.40%	11.58%	26.12%	7.87%
[Major West European	23.73%	22.96%	34.60%	18.25%	25.02%	11.58%	14.93%	31.47%]
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

\*Major West European category includes France, United Kingdom, Germany, and Italy.

**Table 1F**  
**Arms Transfer Agreements with Developing Nations, 1993-2000**  
**Leading Suppliers Compared**  
**(In millions of current U.S. dollars)**

<b>Rank</b>	<b>Supplier</b>	<b>Agreements Value 1993-1996</b>
1	United States	30,965
2	France	15,500
3	Russia	14,300
4	United Kingdom	6,300
5	China	2,200
6	Italy	1,600
7	Ukraine	1,400
8	Germany	1,200
9	Israel	1,100
10	Netherlands	1,100
11	South Africa	1,000

<b>Rank</b>	<b>Supplier</b>	<b>Agreements Value 1997-2000</b>
1	United States	30,486*
2	Russia	16,200
3	France	9,200
4	China	5,000
5	Germany	4,600
6	United Kingdom	2,600
7	Sweden	2,300
8	Israel	1,500
9	Belgium	1,000
10	Belarus	1,000
11	Italy	900

<b>Rank</b>	<b>Supplier</b>	<b>Agreements Value 1993-2000</b>
1	United States	61,451*
2	Russia	30,500
3	France	24,700
4	United Kingdom	8,900
5	China	7,200
6	Germany	5,800
7	Israel	2,600
8	Italy	2,500
9	Sweden	2,400
10	Ukraine	2,300
11	Belarus	1,900

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million. Where data totals are the same, the actual rank order is maintained.

\*The United States total includes a \$6.432 billion licensed commercial agreement with the United Arab Emirates in 2000 for 80 F-16 aircraft.

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**Table 1G**  
**Arms Transfer Agreements with Developing**  
**Nations in 2000: Leading Suppliers Compared**  
**(In millions of current U.S. dollars)**

<b>Rank</b>	<b>Supplier</b>	<b>Agreements Value 1993-1996</b>
1	United States	12,638
2	Russia	7,400
3	France	2,100
4	Germany	1,000
5	Israel	600
6	China	400
7	Turkey	300
8	Belarus	100
9	Brunei	100
10	Cyprus	100
11	North Korea	100

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million. Where data totals are the same, the actual rank order is maintained.

\*The United States total includes a \$6.432 billion licensed commercial agreement with the United Arab Emirates in 2000 for 80 F-16 aircraft.

**Table 11**  
**Arms Transfer Agreements of Developing Nations, 1993-2000**  
**Agreements by the Leading Recipients**  
**(In millions of current U.S. dollars)**

<b>Rank</b>	<b>Recipient</b>	<b>Agreements Value 1993-1996</b>
1	Saudi Arabia	18,800
2	China	7,100
3	Kuwait	5,300
4	U.A.E.	5,000
5	Egypt	4,700
6	Israel	4,300
7	India	3,900
8	South Korea	3,400
9	Pakistan	3,300
10	Indonesia	3,200

<b>Rank</b>	<b>Recipient</b>	<b>Agreements Value 1997-2000</b>
1	U.A.E.	14,000*
2	India	7,600
3	Egypt	6,900
4	Saudi Arabia	5,700
5	China	5,500
6	Israel	5,200
7	South Korea	4,700
8	South Africa	4,500
9	Singapore	2,800
10	Malaysia	2,200

<b>Rank</b>	<b>Recipient</b>	<b>Agreements Value 1993-2000</b>
1	Saudi Arabia	24,500
2	U.A.E.	19,000*
3	China	12,600
4	Egypt	11,600
5	India	11,500
6	Israel	9,500
7	South Korea	8,100
8	Kuwait	6,000
9	Pakistan	5,300
10	South Korea	4,700

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million. Where data totals are the same, the actual rank order is maintained.

\*The U.A.E. total includes a \$6.432 billion licensed commercial agreement with the United Arab Emirates in 2000 for 80 F-16 aircraft.

**Table 1J**  
**Arms Transfer Agreements of Developing Nations in 2000**  
**Agreements by Leading Recipients**  
**(In millions of current U.S. dollars)**

Rank	Recipient	Agreements Value 2000
1	U.A.E.	7,400*
2	India	4,800
3	South Korea	2,300
4	China	2,100
5	Egypt	1,800
6	Israel	1,600
7	Singapore	1,600
8	Saudi Arabia	500
9	North Korea	400
10	Malaysia	400

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million. Where data totals are the same, the actual rank order is maintained.

\*The United States total includes a \$6.432 billion licensed commercial agreement with the United Arab Emirates in 2000 for 80 F-16 aircraft.

**Table 2**  
**Arms Deliveries to Developing Nations, by Supplier, 1993-2000**  
**(In millions of current U.S. dollars)**

	1993	1994	1995	1996	1997	1998	1999	2000	1993-2000
United States	8,648	7,094	10,486	9,730	10,814	10,461	12,461	8,686	78,410
Russia	2,100	1,400	2,700	2,200	2,200	2,000	2,300	2,400	17,300
France	800	700	2,000	2,900	5,800	6,100	2,500	1,100	21,900
United Kingdom	3,800	4,700	4,900	5,800	5,900	3,300	4,400	4,400	37,200
China	1,100	600	700	600	1,000	500	300	500	5,300
Germany	600	900	1,100	700	400	200	600	400	4,900
Italy	0	200	200	100	600	200	100	100	1,500
All Other European	1,300	2,200	2,300	2,300	3,200	2,000	1,900	1,300	16,500
All Others	1,100	1,100	1,200	1,100	900	700	600	500	7,200
<b>Total</b>	<b>19,448</b>	<b>18,894</b>	<b>25,586</b>	<b>25,430</b>	<b>30,814</b>	<b>25,461</b>	<b>25,191</b>	<b>19,386</b>	<b>190,210</b>

Dollar inflation index:

(2000 = 1.00)\*    0.845    0.8638    0.8814    0.9004    0.9201    0.9409    0.9617    1

Source: U.S. government.

Note: Developing nations category excludes the United States, Russia, Europe, Canada, Japan, Australia, and New Zealand. All data are for the calendar year given, except for U.S. Military Assistance Program, international military education and training, Excess Defense Articles, and commercially licensed deliveries, which are included for the particular fiscal year. All amounts given include the values of weapons, spare parts, construction, all associated services, military assistance, Excess Defense Articles, and training programs. Statistics for foreign countries are based upon estimated selling prices. All foreign data are rounded to the nearest \$100 million.

\*Based on Department of Defense price deflator.

**Table 2A**  
**Arms Deliveries to Developing Nations, by Supplier, 1993-2000**  
(In millions of constant 2000 U.S. dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	1993-2000
United States	10,234	8,213	11,897	10,806	11,753	11,118	12,988	8,686	85,695
Russia	2,485	2,431	1,588	2,443	2,391	2,126	2,392	2,400	18,256
France	947	810	2,269	3,221	6,304	6,483	2,600	1,100	23,734
United Kingdom	4,497	4,399	5,559	6,442	6,412	3,507	4,575	4,400	39,791
China	1,302	695	794	666	1,087	531	312	500	5,887
Germany	710	1,042	1,248	777	435	213	624	400	5,449
Italy	0	232	227	111	652	213	104	100	1,639
All Other European	1,538	2,547	2,609	2,554	3,478	2,126	1,976	1,300	18,128
All Others	1,302	1,273	1,361	1,222	978	744	624	500	8,004
<b>Total</b>	<b>23,015</b>	<b>21,642</b>	<b>27,552</b>	<b>28,242</b>	<b>33,490</b>	<b>27,061</b>	<b>26,195</b>	<b>19,386</b>	<b>206,583</b>

**Table 2C**  
**Regional Arms Deliveries by Supplier, 1993-2000**  
(In millions of current U.S. dollars)

	Asia		Near East		Latin America		Africa	
	1993-1996	1997-2000	1993-1996	1997-2000	1993-1996	1997-2000	1993-1996	1997-2000
United States	9,008	14,510	24,242	26,412	2,402	1,383	133	87
Russia	4,500	5,300	3,100	2,400	300	300	600	800
France	1,500	8,800	4,300	6,400	300	200	400	0
United Kingdom	2,700	2,600	9,100	15,000	200	200	100	100
China	1,500	1,000	1,200	800	100	0	200	600
Germany	2,600	400	400	1,000	200	200	0	0
Italy	300	800	100	200	0	0	0	100
All Other European	1,700	1,600	5,200	4,800	800	900	600	1,100
All Others	1,300	1,200	1,000	700	800	300	1,300	500
[Major West European*]	7,100	12,600	13,900	22,600	700	600	500	200]
<b>Total</b>	<b>25,108</b>	<b>36,210</b>	<b>48,642</b>	<b>57,712</b>	<b>5,102</b>	<b>3,483</b>	<b>3,333</b>	<b>3,287</b>

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million.

\*Major West European category include; France, United Kingdom, Germany, and Italy.

**Table 2D**  
**Percentage of Supplier's Deliveries Value by Region, 1993-2000**

	Asia		Near East		Latin America		Africa		Total	
	1993-1996	1997-2000	1993-1996	1997-2000	1993-1996	1997-2000	1993-1996	1997-2000	1993-1996	1997-2000
United States	25.17%	34.23%	67.74%	62.30%	6.71%	3.26%	0.37%	0.21%	100.00%	100.00%
Russia	52.94%	60.23%	36.47%	27.27%	3.53%	3.41%	7.06%	9.09%	100.00%	100.00%
France	23.08%	57.14%	66.15%	41.56%	4.62%	1.30%	6.15%	0.00%	100.00%	100.00%
United Kingdom	22.31%	14.53%	75.21%	83.80%	1.65%	1.12%	0.83%	0.56%	100.00%	100.00%
China	50.00%	41.67%	40.00%	33.33%	3.33%	0.00%	6.67%	25.00%	100.00%	100.00%
Germany	81.25%	25.00%	12.50%	62.50%	6.25%	12.50%	0.00%	0.00%	100.00%	100.00%
Italy	75.00%	72.73%	25.00%	18.18%	0.00%	0.00%	0.00%	9.09%	100.00%	100.00%
All Other European	20.48%	19.05%	62.65%	57.14%	9.64%	10.71%	7.23%	13.10%	100.00%	100.00%
All Others	29.55%	44.44%	22.73%	25.93%	18.18%	11.11%	29.55%	18.52%	100.00%	100.00%
[Major West European*	31.98%	35.00%	62.61%	62.78%	3.15%	1.67%	2.25%	0.56%	100.00%	100.00%]
<b>Total</b>	<b>30.55%</b>	<b>35.96%</b>	<b>59.19%</b>	<b>57.32%</b>	<b>6.21%</b>	<b>3.46%</b>	<b>4.06%</b>	<b>3.26%</b>	<b>100.00%</b>	<b>100.00%</b>

\*Major West European category includes France, United Kingdom, Germany, and Italy.



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**Table 2F**  
**Arms Deliveries to Developing Nations, 1993-2000:**  
**Leading Suppliers Compared**  
**(In millions of current U.S. dollars)**

<b>Rank</b>	<b>Supplier</b>	<b>Agreements Value 1993-1996</b>
1	United States	35,958
2	United Kingdom	19,200
3	Russia	8,400
4	France	6,400
5	Germany	3,300
6	China	3,000
7	Sweden	2,300
8	Israel	1,900
9	Canada	1,000
10	South Africa	900
11	Netherlands	700

<b>Rank</b>	<b>Supplier</b>	<b>Agreements Value 1997-2000</b>
1	United States	42,452
2	United Kingdom	18,000
3	France	15,500
4	Russia	8,900
5	Sweden	2,400
6	China	2,300
7	Germany	1,600
8	Ukraine	1,500
9	Belarus	1,100
10	Italy	1,000
11	Israel	700

<b>Rank</b>	<b>Supplier</b>	<b>Agreements Value 1997-2000</b>
1	United States	78,410
2	United Kingdom	37,200
3	France	21,900
4	Russia	17,300
5	China	5,300
6	Germany	4,900
7	Sweden	4,700
8	Israel	2,600
9	Ukraine	2,000
10	Belarus	1,500
11	Italy	1,500

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million. Where data totals are the same, the actual rank order is maintained.

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**Table 2G**  
**Arms Deliveries to Developing Nations in 2000:**  
**Leading Suppliers Compared**  
**(In millions of current U.S. dollars)**

<b>Rank</b>	<b>Supplier</b>	<b>Agreements Value 2000</b>
1	United States	8,686
2	United Kingdom	4,400
3	Russia	2,400
4	France	1,100
5	China	500
6	Sweden	500
7	Germany	400
8	Belarus	200
9	North Korea	200
10	Ukraine	200
11	Brunei	100

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million. Where data totals are the same, the actual rank order is maintained.

**Table 2H**  
**Arms Deliveries to Near East by Supplier**  
**(In millions of current U.S. dollars)**

<b>Recipient Country</b>	<b>U.S.</b>	<b>Russia</b>	<b>China</b>	<b>Major West European*</b>	<b>All Other European</b>	<b>All Others</b>	<b>Total</b>
<b>1993-1996</b>							
Algeria	0	300	0	0	200	0	500
Bahrain	200	0	0	0	0	0	200
Egypt	6,000	200	0	100	400	0	6,700
Iran	0	1,300	900	100	100	200	2,600
Iraq	0	0	0	0	0	0	0
Israel	2,100	0	100	300	0	100	2,600
Jordan	200	0	0	0	0	100	300
Kuwait	3,100	800	0	700	0	0	4,600
Lebanon	100	0	0	0	0	0	100
Libya	0	0	0	0	0	0	0
Morocco	100	0	0	100	0	0	200
Oman	0	0	0	1,000	100	100	1,200
Qatar	0	0	0	0	0	0	0
Saudi Arabia	12,100	0	100	16,100	3,600	0	31,900
Syria	0	100	0	0	200	100	400
Tunisia	100	0	0	0	100	0	200
U.A.E.	600	300	0	2,400	0	400	3,700
Yemen	0	0	100	0	300	0	400
<b>1997-2000</b>							
Algeria	0	500	100	0	600	0	1,200
Bahrain	500	0	0	0	0	0	500
Egypt	3,600	300	0	100	0	0	4,000
Iran	0	800	400	100	300	100	1,700
Iraq	0	0	0	0	0	0	0
Israel	3,900	0	0	900	0	200	5,000
Jordan	200	0	0	0	0	100	300
Kuwait	1,500	0	200	1,200	100	0	3,000
Lebanon	100	0	0	100	0	0	200
Libya	0	0	0	0	100	0	100
Morocco	100	0	0	100	200	100	500
Oman	0	0	0	200	0	0	200
Qatar	0	0	0	1,700	0	0	1,700
Saudi Arabia	16,200	0	0	15,400	2,400	0	34,000
Syria	0	300	0	100	0	0	400
Tunisia	0	0	0	0	0	0	100
U.A.E.	300	400	0	2,600	800	100	4,200
Yemen	0	0	0	100	100	0	200

Source: U.S. government

Note: 0 = data less than \$50 million or nil. All data are rounded to nearest \$100 million.

\* Major West European includes France, United Kingdom, Germany, and Italy totals as an aggregate figure.

**Table 2I**  
**Arms Deliveries to Developing Nations, 1993-2000:**  
**the Leading Recipients**  
**(In millions of current U.S. dollars)**

<b>Rank</b>	<b>Recipient</b>	<b>Deliveries Value 1993-1996</b>
1	Saudi Arabia	31,900
2	Egypt	6,700
3	Taiwan	5,600
4	South Korea	5,000
5	Kuwait	4,600
6	U.A.E.	3,700
7	China	2,900
8	Iran	2,600
9	Israel	2,600
10	Malaysia	2,000

<b>Rank</b>	<b>Recipient</b>	<b>Deliveries Value 1997-2000</b>
1	Saudi Arabia	34,000
2	Taiwan	15,400
3	Israel	5,000
4	South Korea	4,700
5	U.A.E.	4,200
6	Egypt	4,000
7	China	3,300
8	Kuwait	3,000
9	India	2,100
10	Malaysia	2,100

<b>Rank</b>	<b>Recipient</b>	<b>Deliveries Value 1993-2000</b>
1	Saudi Arabia	65,900
2	Taiwan	21,000
3	Egypt	10,700
4	South Korea	9,700
5	U.A.E.	7,900
6	Kuwait	7,600
7	Israel	7,600
8	China	6,200
9	Iran	4,200
10	Malaysia	4,100

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million. Where data totals are the same, the actual rank order is maintained.

**Table 2J**

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**Arms Deliveries to Developing Nations in 2000:  
the Leading Recipients  
(In millions of current U.S. dollars)**

Rank	Recipient	Deliveries Value 2000
1	Saudi Arabia	7,300
2	China	1,600
3	Egypt	1,300
4	Taiwan	1,200
5	Israel	1,000
6	Kuwait	1,000
7	South Korea	700
8	Indonesia	700
9	U.A.E.	500
10	Algeria	300

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million. Where data totals are the same, the actual rank order is maintained.

**Selected Weapons Deliveries to Developing Nations, 1993-2000**

Other useful data for assessing arms transfers are those that indicate who has actually delivered specific numbers of specific classes of military items to a region. These data are relatively “hard” in that they reflect actual transfers of military equipment. They have the limitation of not giving detailed information regarding either the sophistication or the specific name of the equipment delivered. However, these data show relative trends in the delivery of important classes of military equipment and indicate who the leading suppliers are from region to region over time. Data in the following tables set out actual deliveries of fourteen categories of weaponry to developing nations from 1993-2000 by the United States, Russia, China, the four major West European suppliers as a group, all other European suppliers as a group, and all other suppliers as a group. (**Table 3.**)

A note of caution is warranted regarding the quantitative data with these specific tables. Aggregate data on weapons categories delivered by suppliers do not provide precise indices of the quality and/or quantity of the weaponry delivered. The history of recent conventional conflicts suggests that quality and/or sophistication of weapons can offset quantitative advantage. Further, these data do not provide an indication of the relative capabilities of the recipient nations to use effectively the weapons delivered to them. Superior training – coupled with good equipment, tactical proficiency, and sound logistics – may, in the last analysis, be a more important factor in a nation’s ability to engage successfully in conventional warfare than the size of its weapons inventory.

**Regional Weapons Deliveries Summary, 1997-2000**

- The regional weapons delivery data collectively show that the United States was the leading supplier of several major classes of conventional weaponry from 1997-2000. Russia transferred significant quantities of certain weapons classes, although generally less than the United States or other supplier groups in most regions, during these years.

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- The major West European suppliers were serious competitors in weapons deliveries from 1997-2000 making notable deliveries of certain categories of armaments to every region of the developing world-most particularly to the Near East, Asia, and to Latin America. In Africa, European suppliers, China, and all other non-European suppliers were principal competitors for Russia in arms deliveries.

- Regional weapons delivery data reflect the diverse sources of supply of conventional weaponry available to developing nations. Even though the United States, Russia, and the four major West European suppliers tend to dominate the delivery of the fourteen classes of weapons examined, it is also evident that the other European suppliers, and non-European suppliers, including China, are fully capable of providing specific classes of conventional armaments, such as tanks, missiles, armored vehicles, aircraft, artillery pieces, and the various missile categories, surface-to-surface, surface-to-air, and anti-ship, to developing nations, should their systems prove attractive to prospective purchasers.

Noteworthy deliveries of specific categories of weapons to regions of the developing world by specific suppliers from 1997-2000 included the following:

### **Asia**

Russia delivered one major surface combatant, five minor surface combatants, four submarines, eighty supersonic combat aircraft, seventy helicopters, one thousand and twenty surface-to-air missiles, and ninety anti-ship missiles. The United States delivered three hundred sixty-nine tanks and self-propelled guns, seven major surface combatants, two hundred seventy nine supersonic combat aircraft, sixty-two helicopters, five hundred twenty-two surface-to-air missiles, and one hundred eighty-one anti-ship missiles. China delivered one hundred tanks and self-propelled guns, one hundred twenty APCs and armored cars, one major surface combatant, fourteen minor surface combatants, two guided missile boats, fifty supersonic combat aircraft, three hundred and seventy surface-to-air missiles, and forty anti-ship missiles. The four major West European suppliers as a group delivered one hundred twenty APCs and armored cars, six major surface combatants, eleven minor surface combatants, three submarines, eighty supersonic combat aircraft, one thousand six hundred forty surface-to-air missiles, and sixty anti-ship missiles. All other European suppliers collectively delivered three hundred twenty tanks and self-propelled guns, one hundred ten APCs and armored cars, one major surface combatant, four minor surface combatants, one submarine, and forty supersonic combat aircraft. All other non-European suppliers collectively delivered one hundred ten artillery pieces, one major surface combatant, thirty-four minor surface combatants, two submarines, ten supersonic combat aircraft, and fifty surface-to-air missiles.

### **Near East**

Russia delivered three hundred fifty tanks and self-propelled guns, six hundred APCs and armored cars, one submarine, twenty supersonic combat aircraft, and fifty helicopters. The United States delivered ninety-three tanks and self-propelled guns, one thousand nineteen APCs and armored cars, one minor surface combatant, one hundred twenty-nine supersonic combat aircraft, fifty-six helicopters, five hundred eighty-nine surface-to-air missiles, and fifty-seven anti-ship missiles. China delivered one guided missile boat, three hundred surface-to-air missiles, and one hundred anti-ship missiles. The four major West European suppliers collectively delivered two hundred fifty tanks and self-propelled guns, two hundred sixty APCs and armored cars, one major surface combatant, twelve minor surface combatants, twelve guided missile boats, three submarines, thirty supersonic combat aircraft, thirty helicopters, and one hundred sixty anti-ship missiles. All other European suppliers as a group delivered one hundred ten artillery pieces, two major surface combatants, three minor surface combatants, forty supersonic combat aircraft, and

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ten helicopters. All other suppliers collectively delivered five hundred thirty APCs and armored cars, three minor surface combatants, thirty surface-to-surface missiles, and one hundred anti-ship missiles.

### **Latin America**

Russia delivered thirty APCs and armored cars, and sixty helicopters. The United States delivered fourteen APCs and armored cars, two major surface combatants, fifty-two helicopters, and nine anti-ship missiles. China delivered one hundred twenty surface-to-air missiles. The four major West European suppliers collectively delivered eighty tanks and self-propelled guns, one hundred forty APCs and armored cars, one major surface combatant, two minor surface combatants, four guided missile boats, one submarine, twenty helicopters, one hundred ten surface-to-air missiles, and thirty anti-ship missiles. All other European suppliers collectively delivered three hundred thirty tanks and self-propelled guns, forty APCs and armored cars, eight major surface combatants, eighty-seven minor surface combatants, ten supersonic combat aircraft, twenty helicopters, and seven hundred eighty surface-to-air missiles. All other non-European suppliers as a group delivered twenty tanks and self-propelled guns, two guided missile boats, and ten anti-ship missiles.

### **Africa**

Russia delivered fifty tanks and self-propelled guns, eighty APCs and armored cars, one hundred eighty artillery pieces, forty supersonic combat aircraft, and twenty helicopters. The United States delivered two minor surface combatants. China delivered one hundred forty tanks and self-propelled guns, five minor surface combatants, twenty supersonic combat aircraft, and ten helicopters. The four major West European suppliers collectively delivered eight minor surface combatants. All other European suppliers collectively delivered six hundred ten tanks and self-propelled guns, three hundred ninety artillery pieces, three hundred thirty APCs and armored cars, six minor surface combatants, thirty supersonic combat aircraft, seventy helicopters, and three hundred seventy surface-to-surface missiles. All other non-European suppliers as a group delivered one hundred tanks and self-propelled guns, one hundred artillery pieces, four hundred seventy APCs and armored cars, five minor surface combatants, twenty supersonic combat aircraft, twenty helicopters, and one hundred fifty surface-to-air missiles.

**Table 3**  
**Numbers of Weapons Delivered by Major Suppliers to Developing Nations**

Weapons Category	U.S.	Russia	China	Major West European	All Other European	All Others
<b>1993-1996</b>						
Tanks and Self-Propelled						
Guns	1,935	240	260	130	510	30
Artillery	269	490	170	140	650	200
APCs and Armored Cars	2,444	1,400	40	710	760	2,120
Major Surface Combatants	0	0	3	49	0	0
Minor Surface Combatants	57	13	14	49	35	70
Guided Missile Boats	0	0	19	0	0	3
Submarines	0	3	0	9	0	0
Supersonic Combat Aircraft	175	70	120	0	70	40
Subsonic Combat Aircraft	69	0	0	110	0	0
Other Aircraft	44	30	70	90	280	140
Helicopters	210	230	0	100	120	10
Surface-to-Air Missiles	1,697	1,670	270	2,040	1,980	130
Surface-to-Surface Missiles	0	0	0	0	0	40
Anti-Ship Missiles	515	30	200	70	0	170
<b>1997-2000</b>						
Tanks and Self-Propelled						
Guns	462	430	240	330	1,260	130
Artillery	180	200	120	50	540	240
APCs and Armored Cars	1,061	780	120	520	480	1,050
Major Surface Combatants	9	1	1	8	11	1
Minor Surface Combatants	3	5	19	33	100	42
Guided Missile Boats	0	0	3	16	0	2
Submarines	0	5	0	7	1	2
Supersonic Combat Aircraft	408	140	70	110	120	30
Subsonic Combat Aircraft	2	0	0	60	30	30
Other Aircraft	58	30	50	50	100	190
Helicopters	170	200	10	60	100	20
Surface-to-Air Missiles	1,111	1,120	790	1,750	1,150	200
Surface-to-Surface Missiles	0	0	0	0	0	30
Anti-Ship Missiles	247	90	140	250	50	110

Source: U.S. government

**Note:** Developing nations category excludes the U.S., Russia, Europe, Canada, Japan, Australia, and New Zealand. All data are for calendar years given. Major West European includes France, United Kingdom, Germany, and Italy totals as an aggregate figure. Data relating to surface-to-surface and anti-ship missiles by foreign suppliers are estimates based on a variety of sources having a wide range of accuracy. As such, individual data entries in these two weapons delivery categories are not necessarily definitive.

### Worldwide Arms Transfer Agreements and Deliveries Values, 1993-2000

**Tables 8A, 8B, 9, and 9A,** provide the total dollar values for arms transfer agreements and arms deliveries worldwide for the years 1993-2000 in the same format and detail as do **Tables 1A, 1B, 2, and 2A** for arms transfer agreements with and arms deliveries to developing nations.



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**Tables 8C, 8D, 9C and 9D** provide a list of the top eleven arms suppliers to the world based on the total values (in current dollars) of their arms transfer agreements with and arms deliveries worldwide during calendar years 1993-1996, 1997- 2000, and 2000. These tables are set out in the same format and detail as **Tables 1F, 1G, 2F and 2G**, for arms transfer agreements with and arms deliveries to developing nations respectively.

### **Total Worldwide Arms Transfer Agreements Values, 1993-2000**

Some of the more notable facts reflected by these data are summarized below. Unless otherwise noted, dollar values are expressed in constant 2000 U.S. dollars.

- The United States ranked first among all suppliers to the world in the value of arms transfer agreements from 1997-2000, and first for the entire period from 1993-2000. (**Figure 1 and Table 8C.**)
- Russia ranked second among all suppliers to the world in the value of arms transfer agreements from 1997-2000, and second from 1993-2000.
- France ranked third among all suppliers to the world in the value of arms transfer agreements from 1997-2000, and third from 1993-2000.
- In 2000, the value of all arms transfer agreements worldwide was about \$36.9 billion. This is the highest total for worldwide arms transfer agreements for any year since 1993.
- In 2000, the United States was the leader in arms transfer agreements with the world, making \$18.6 billion in such agreements, or 50.4 percent of all arms transfer agreements. Russia ranked second with \$7.7 billion in arms transfer agreements, or 20.9 percent of all arms transfer agreements. France ranked third with \$4.1 billion or 11.1 percent. United States agreements increased notably from \$12.9 billion in 1999 to \$18.6 billion in 2000. The U.S. increase was substantially assisted by the sale of 80 F-16 fighter aircraft to the U.A.E. for \$6.432 billion. France's arms transfer agreements rose significantly from \$936 million in 1999 to \$4.1 billion in 2000. (**Tables 8A and 8D.**)
- The United States, Russia and France, the top three arms suppliers to the world in 2000 – respectively – ranked by the value of their arms transfer agreements – collectively made agreements in 2000 valued at nearly \$30.4 billion, 82.4 percent of all arms transfer agreements made with the world by all suppliers.
- The total value of all arms transfer agreements worldwide from 1997-2000 (\$125.1 billion) was notably less than the value of arms transfer agreements by all suppliers worldwide from 1993-1996 (\$142.4 billion), a decline of 12.1 percent. (**Figure 1.**)
- During the period from 1993-1996, developing world nations accounted for 67.7 percent of all arms transfer agreements made worldwide. During 1997-2000, developing world nations accounted for 67.6 percent of all agreements made worldwide. (**Figure 1.**)
- In 2000, developing nations were recipients of 69 percent of all arms transfer agreements made worldwide. (**Figure 1.**)

**Table 8A**  
**Arms Transfer Agreements with the World by Supplier, 1993-2000**  
(In millions of constant 2000 U.S. dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	1993-2000
United States	24,329	14,447	9,958	12,168	7,960	10,660	12,872	18,562	110,986
Russia	2,840	4,631	8,509	5,109	3,913	2,763	4,055	7,700	39,520
France	5,917	10,072	2,950	2,777	5,108	3,507	936	4,100	35,367
United Kingdom	3,314	810	908	5,553	1,087	2,126	936	600	15,334
China	592	695	227	1,000	1,413	1,169	2,704	400	8,200
Germany	1,538	1,621	454	222	652	5,314	4,159	1,100	15,060
Italy	473	232	1,361	444	326	957	832	100	4,725
All Other European	1,183	2,894	3,290	4,220	2,174	1,807	6,447	3,100	25,115
All Others	947	926	2,383	3,332	1,630	1,700	1,040	1,200	13,158
<b>Total</b>	<b>41,133</b>	<b>36,358</b>	<b>30,040</b>	<b>34,825</b>	<b>24,262</b>	<b>30,003</b>	<b>33,981</b>	<b>36,862</b>	<b>267,464</b>

**Table 8B**  
**Arms Transfer Agreements with the World by Supplier, 1993-2000**  
(Expressed as a percent of total, by year)

	1993	1994	1995	1996	1997	1998	1999	2000
United States	59.15%	9.82%	33.15%	34.94%	32.81%	35.53%	37.88%	50.36%
Russia	6.90%	12.74%	28.33%	14.67%	16.13%	9.21%	11.93%	20.89%
France	14.39%	27.70%	9.82%	7.97%	21.05%	11.69%	2.75%	11.12%
United Kingdom	8.06%	2.23%	3.02%	15.95%	4.48%	7.08%	2.75%	1.63%
China	1.44%	1.91%	0.76%	2.87%	5.82%	3.90%	7.96%	1.09%
Germany	3.74%	4.46%	1.51%	0.64%	2.69%	17.71%	12.24%	2.98%
Italy	1.15%	0.64%	4.53%	1.28%	1.34%	3.19%	2.45%	0.27%
All Other European	2.88%	7.96%	10.95%	12.12%	8.96%	6.02%	18.97%	8.41%
All Others	2.30%	2.55%	7.93%	9.57%	6.72%	5.67%	3.06%	3.26%
[Major West European*]	27.33%	35.03%	18.88%	25.83%	29.56%	39.67%	20.20%	16.01%]
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

\*Major West European category includes France, United Kingdom, Germany, and Italy.

**Table 8C**  
**Arms Transfer Agreements with the World, 1993-2000**  
**Leading Suppliers Compared**  
**(In millions of current U.S. dollars)**

<b>Rank</b>	<b>Supplier</b>	<b>Agreements Value 1993-1996</b>
1	United States	52,796
2	France	18,800
3	Russia	18,500
4	United Kingdom	9,300
5	Germany	3,300
6	Israel	2,400
7	China	2,200
8	Italy	2,200
9	Ukraine	1,500
10	Netherlands	1,400
11	South Africa	1,100

<b>Rank</b>	<b>Supplier</b>	<b>Agreements Value 1997-2000</b>
1	United States	48,295*
2	Russia	17,800
3	France	13,000
4	Germany	10,700
5	China	5,400
6	United Kingdom	4,500
7	Sweden	3,400
8	Israel	2,700
9	Italy	2,100
10	Spain	2,100
11	Ukraine	1,300

<b>Rank</b>	<b>Supplier</b>	<b>Agreements Value 1993-2000</b>
1	United States	101,091*
2	Russia	36,300
3	France	31,800
4	Germany	14,000
5	United Kingdom	13,800
6	China	7,600
7	Israel	5,100
8	Italy	4,300
9	Sweden	4,100
10	Ukraine	2,800
11	Spain	2,600

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million. Where data totals are the same, the actual rank order is maintained.

\*The U.S. total includes a \$6.432 billion licensed commercial agreement with the United Arab Emirates in 2000 for 80 F-16 aircraft.

**Table 8D**  
**Arms Transfer Agreements with the World In 2000**  
**Leading Suppliers Compared:**  
**(In millions of current U.S. dollars)**

Rank	Supplier	Agreements Value 2000
1	United States	18,562*
2	Russia	7,700
3	France	4,100
4	Spain	1,500
5	Germany	1,100
6	Israel	600
7	United Kingdom	600
8	China	400
9	Turkey	300
10	Sweden	200
11	Ukraine	200

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million. Where data totals are the same, the actual rank order is maintained.

\*The U.S. total includes a \$6.432 billion licensed commercial agreement with the United Arab Emirates in 200 for 80 F-16 aircraft.

### **Total Worldwide Delivery Values 1993-2000**

**Table 9** shows the annual current dollar values of arms deliveries (items actually transferred) worldwide by major suppliers from 1993-2000. The utility of these data is that they reflect transfers that have occurred. They provide the data from which **Table 9A** is derived. Some of the more notable facts illustrated by these data are summarized below. Unless otherwise noted the dollar values are expressed in constant 2000 U.S. dollars.

- In 2000, the United States ranked first in the value of arms deliveries worldwide, making nearly \$14.2 billion in such deliveries. This is the eighth year in a row that United States has led in such deliveries, reflecting implementation of arms agreements concluded during and immediately after the Persian Gulf war. (**Figure 2, Tables 9A and 9D.**)

- The United Kingdom ranked second in arms deliveries worldwide in 2000, making \$5.1 billion in such deliveries.

- Russia ranked third in arms deliveries worldwide in 2000, making \$3.5 billion in such deliveries.

- In 2000, the top three suppliers of arms to the world, the United States, the United Kingdom, and Russia, collectively delivered nearly \$22.8 billion, 77.5 percent of all arms deliveries made worldwide by all suppliers. (**Table 9D.**)

- The U.S. share of all arms deliveries worldwide in 2000 was 48.3 percent, down slightly from its 49.1 percent share in 1999. The United Kingdom's share in 2000 was 17.4 percent up from 14 percent in 1999. Russia's share of world arms deliveries in 2000 was 11.9 percent, up from 8.5 percent in 1999. (**Table 9B.**)

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- In 2000, the value of all arms deliveries worldwide was nearly \$29.4 billion, a significant decline in the total value of deliveries in 1999 (\$38 billion in constant 2000 dollars), and the lowest deliveries total during the entire period from 1993-2000. (**Chart 7, Table 9A.**)

- During the period from 1993-1996, developing world nations accounted for 65.8 percent of all arms deliveries received worldwide. During 1997-2000, developing world nations accounted for 70.2 percent of all deliveries worldwide. (**Figure 2 and Table 9A.**)

- In 2000, developing nations as recipients of arms accounted for 66 percent of all arms deliveries received worldwide. (**Figure 2 and Table 9A.**)

- The total value of all arms deliveries by all suppliers worldwide from 1997-2000 (\$151.1 billion) was a slight decrease from the value of arms deliveries by all suppliers worldwide from 1993-1996 (\$152.8 billion in constant dollars). (**Figure 2 and Table 9A.**)

**Table 9**  
**Arms Deliveries to the World By Supplier, 1993-2000**  
(In millions of current U.S. dollars)

	1993	1994	1995	1996	1997	1998	1999	2000	Total 1993- 2000
United States	15,172	13,345	15,991	14,820	16,274	16,482	17,935	14,187	124,206
Russia	3,400	1,700	3,500	3,100	2,600	2,200	3,100	3,500	23,100
France	1,500	1,300	2,800	3,600	6,300	6,800	3,100	1,500	26,900
United Kingdom	4,600	5,200	5,300	6,500	6,800	3,800	5,100	5,100	42,400
China	1,200	600	700	600	1,000	600	300	500	5,500
Germany	1,700	1,700	2,000	1,900	1,200	1,400	1,900	800	12,600
Italy	400	200	200	100	700	200	300	300	2,400
All Other European	2,300	3,400	3,500	3,400	4,400	3,200	2,700	2,000	24,900
All Others	1,900	2,000	2,000	1,800	2,300	1,600	2,100	1,500	15,200
<b>Total</b>	<b>32,172</b>	<b>29,445</b>	<b>35,991</b>	<b>41,574</b>	<b>36,282</b>	<b>36,535</b>	<b>36,535</b>	<b>29,387</b>	<b>277,206</b>

Source: U.S. government

Note: All data are for the calendar year given. All data are for the calendar year given except for U.S. Military Assistance Program, international military education and training, excess defense articles, and commercially licensed deliveries, which are included for the particular fiscal year. All amounts given include the values of weapons, spare parts, construction, all associated services, military assistance, excess defense articles, and training programs. Statistics for foreign countries are based upon estimated selling prices. All foreign data are rounded to the nearest \$100 million.

\*Based on Department of Defense price deflator.

**Table 9A**  
**Arms Deliveries to the World by Supplier, 1993-2000**  
(In millions of constant 2000 U.S. dollars)

	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>Total 1993- 2000</b>
United States	17,955	15,449	18,143	16,459	17,687	17,517	18,649	14,187	136,046
Russia	4,024	1,968	3,971	3,443	2,826	2,338	3,223	3,500	25,292
France	1,775	1,505	3,177	3,998	6,847	7,227	3,223	1,500	29,252
United Kingdom	5,444	6,020	6,013	7,219	7,391	4,039	5,303	5,100	46,529
China	1,420	695	794	666	1,087	638	312	500	6,112
Germany	2,012	1,968	2,269	2,110	1,304	1,488	1,976	800	13,927
Italy	473	232	227	111	761	213	312	300	2,629
All Other European	2,722	3,936	3,971	3,776	4,782	3,401	2,808	2,000	27,396
All Others	2,249	2,315	2,269	1,999	2,500	1,700	2,184	1,500	16,716
<b>Total</b>	<b>38,074</b>	<b>34,088</b>	<b>40,834</b>	<b>39,781</b>	<b>45,185</b>	<b>38,561</b>	<b>37,990</b>	<b>29,387</b>	<b>303,900</b>

**Table 9C**  
**Arms Deliveries to the World, 1993-2000:**  
**Leading Suppliers Compared**  
**(In millions of current U.S. dollars)**

<b>Rank</b>	<b>Supplier</b>	<b>Deliveries Value 1993-1996</b>
1	United States	59,328
2	United Kingdom	21,600
3	Russia	11,700
4	France	9,200
5	Germany	7,300
6	Sweden	3,600
7	China	3,100
8	Israel	2,400
9	Canada	1,600
10	Netherlands	1,100
11	Spain	1,100

<b>Rank</b>	<b>Supplier</b>	<b>Deliveries Value 1997-2000</b>
1	United States	64,878
2	United Kingdom	20,800
3	France	17,700
4	Russia	11,400
5	Germany	5,300
6	Sweden	3,400
7	China	2,400
8	Ukraine	1,900
9	Israel	1,600
10	Italy	1,500
11	Belarus	1,100

<b>Rank</b>	<b>Supplier</b>	<b>Deliveries Value 1993-2000</b>
1	United States	124,206
2	United Kingdom	42,400
3	France	26,900
4	Russia	23,100
5	Germany	12,600
6	Sweden	7,000
7	China	5,500
8	Israel	4,000
9	Ukraine	2,500
10	Italy	2,400
11	Canada	2,300

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million. Where data totals are the same, the actual rank order is maintained.

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**Table 9D**  
**Arms Deliveries to the World in 2000:**  
**Leading Suppliers Compared**  
**(In millions of current U.S. dollars)**

Rank	Recipient	Deliveries Value 2000
1	United States	14,187
2	United Kingdom	5,100
3	Russia	3,500
4	France	1,500
5	Germany	800
6	Sweden	600
7	China	500
8	Ukraine	400
9	Italy	300
10	Israel	300
11	Belarus	200

Source: U.S. government

Note: All foreign data are rounded to the nearest \$100 million. Where data totals are in the same, the actual rank order is maintained.

### **Description of Items Counted in Weapons Categories, 1993-2000**

- Tanks and Self-propelled Guns - This category includes light, medium, and heavy tanks; self-propelled artillery; self-propelled assault guns.
- Artillery - This category includes field and air defense artillery, mortars, rocket launchers and recoilless rifles-100 mm and over; FROG launchers-100mm and over.
- Armored Personnel Carriers (APCs) and Armored Cars - This category includes personnel carriers, armored and amphibious; armored infantry fighting vehicles; armored reconnaissance and command vehicles.
- Major Surface Combatants - This category includes aircraft carriers, cruisers, destroyers, frigates.
- Minor Surface Combatants - This category includes mine sweepers, subchasers, motor torpedo boats, patrol craft, motor gunboats.
- Submarines - This category includes all submarines, including midget submarines.
- Guided Missile Patrol Boats - This category includes all boats in this class.
- Supersonic Combat Aircraft - This category includes all fighter and bomber aircraft designed to function operationally at speeds above Mach 1.



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- Subsonic Combat Aircraft - This category includes all fighter and bomber aircraft designed to function operationally at speeds below Mach 1.
  - Other Aircraft - This category includes all other fixed-wing aircraft, including trainers, transports, reconnaissance aircraft, and communications/utility aircraft.
  - Helicopters - This category includes all helicopters, including combat and transport.
  - Surface-to-air Missiles - This category includes all ground-based air defense missiles.
  - Surface-to-surface Missiles - This category includes all surface-surface missiles without regard to range, such as Scuds and CSS-2s. It excludes all anti-tank missiles. It also excludes all anti-ship missiles, which are counted in a separate listing.
  - Anti-ship Missiles - This category includes all missiles in this class such as the Harpoon, Silkworm, Styx and Exocet.

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# Offsets in Defense Trade Fifth Annual Report To Congress

Prepared By The U.S. Department of Commerce

[The following material is extracted from an May 2001 U.S. Department of Commerce study entitled, *Offsets in Defense Trade*, a Study Conducted Under Section 309 of the Defense Production Act of 1950, as amended.<sup>1</sup> The report was produced by the Strategic Analysis Division in the Office of Strategic Industries and Economic Security of the Bureau of Export Administration (BXA). This report covers the six-year period from 1993 through 1998. Some of the footnotes and tables have been omitted; the footnote and table numbers remain the same as in the original. Complete copies are available for sale from the Government Printing Office by calling (866) 512-1800 and requesting publication #003-009-00722-4.]

## Introduction

### Legislation and Regulations

In 1984, Congress enacted amendments to the *Defense Production Act of 1950*, which included the addition of Section 309.<sup>3</sup> Section 309 requires the President to submit an annual report on the impact of offsets on the United States to the then Committee on Banking, Finance, and Urban Affairs of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate.

When Section 309 was first enacted, the Office of Management and Budget (OMB) was appointed the interagency coordinator in the preparation of the annual offsets report for the Congress. The report was to be produced in consultation with the Departments of Commerce, Defense, and Labor, and the Office of the United States Trade Representative. This interagency reporting requirement continued, with minor adjustments, until 1992, when the Congress amended Section 309 by requiring the Secretary of Commerce to perform the interagency coordination role.<sup>4</sup> The Department of Commerce sent its first annual report to Congress in 1996.

Section 309 authorizes the Secretary to develop and administer regulations to collect required offset data from the defense industry for the report. This responsibility was delegated to the Department's Bureau of Export Administration (BXA). The Department's offset regulations were published in the *Federal Register* in 1994 (59 FR 61796, Dec. 2, 1994, codified at 15 CFR Part 701). The 1992 amendments to section 309 also reduced the offset agreement threshold from \$50 million to \$5 million for U.S. firms entering into foreign defense sales contracts subject to offset agreements. On a per-transaction level, firms report all offset transactions for which they receive offset credits of \$250,000 or more. An itemized list of information that is collected annually from industry is in Section 701.4 of the Department's offset regulations.

The official U.S. government policy, developed in 1990, views offsets as economically inefficient and market distorting. Offsets introduce a new element into the purchase decision unrelated to the price or quality of the products. The policy states that the U.S. government will not encourage or enter into any such agreements itself nor provide financing for such arrangements. The decision whether to engage in offsets, and the responsibility for negotiating and implementing offset arrangements, resides with the companies involved. The U.S. policy

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<sup>1</sup>Codified at 50 U.S.C. app. 2099 (1999 and Supp. 2000).

<sup>3</sup>See P. L. 4, 98 Stat. 149.

<sup>4</sup>See P. L. 102-558, Oct. 28, 1992, 106 Stat. 4198.

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also calls for consultations with our allies regarding limiting the adverse effects of offsets in defense procurements.<sup>5</sup>

## 1.2 Offset Definitions

While there are different definitions of offsets used by industry and government for different purposes, for this report offsets in defense trade are industrial compensation practices required as a condition of purchase in either government-to-government or commercial sales of defense articles and/or defense services as specified in the *International Traffic in Arms Regulations*.

### 1.21 Offset Agreements

Offset agreements are commercial contracts between a defense firm and a foreign government. As noted above, the United States government does not actually enter into any offset agreements. Only in rare instances are offset agreements concluded between a defense firm and a foreign firm. The purchasing government decides how much compensation is required and what type of offset it desires. Firms can propose various products and services, but ultimately it is the foreign government's decision what the offset will entail. The value of the offset, and therefore the credit amount the defense firm receives for providing that offset, is assigned by the foreign government as well. Offset agreements specify a certain percentage of the value of the export sale.<sup>6</sup>

Penalties are used to motivate defense firms to fulfill their offset obligation in the time allotted by the contract. There are several different kinds of penalties: liquidated damages, non-performance measures, and best efforts. For liquidated damages, if a firm fails to fulfill all offsets by the stipulated deadline, it must pay a percentage (usually 5-20 percent) of the total value of the export contract. The percentage is specified in the contract non-performance penalties dictate that firms must pay a prearranged percent (2-10 percent) of all obligations not fulfilled in the allotted time. In best efforts clauses, there really is no penalty for non-fulfillment of the contract; the firm is judged to be acting in good faith to meet its obligations. However, firms' reputations can be jeopardized if offset obligations are not fulfilled as stated in the contract; non-fulfillment would likely result in the U.S. defense firm being excluded from future procurements by that purchasing government.

When a defense firm enters into an offset agreement with a foreign government, foreign firms receive the benefits from the offset; these companies are the *offset recipients*. For example, in a direct offset a U.S. company sells a defense item to a foreign country with an offset obligation requiring that components worth 50 percent of the export contract to be built locally; the foreign companies manufacturing these components are the offset recipients. In an indirect offset, a foreign government may require the U.S. company to provide export assistance for small and medium sized companies in various industries; these companies are the offset recipients.

The *offset fulfiller* is the company that provides the offset compensation; this is usually the defense firm who signed the offset agreement. However, there are times when the obligation is not related to the defense firm's specialty and therefore is contracted out. This is generally the case with indirect offsets. For example, if marketing is a component of the offset requirement, the defense firm may hire a marketing company to satisfy the obligation. The marketing firm is the offset fulfiller.

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<sup>5</sup>Congress incorporated this policy into law with an amendment to the *National Defense Authorization Act* (P. L. 102-558, Title I, Part C, §124, 106 Stat. 4207).

<sup>6</sup>For example, if the defense item exported sold for \$1 million and the corresponding offsets agreement was for \$1.2 million, the offsets percentage would equal 120 percent.) The specific requirements of offset agreements are *offset obligations*.

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## 1.22 Offset Transactions

Companies fulfill their offset obligations over a period of time specified in the offset agreement through a series of *offset transactions*. *Offset transactions* are the actual delivery of compensation towards the outstanding balance of an existing offset agreement. For example, a U.S. firm sells a defense item to a foreign government for \$1 billion with 50 percent offset to be fulfilled within ten years. The U.S. company completes \$50 million of offset benefits in one year by providing training related to the defense item sold; this is one of many offset transactions that will fulfill the total offset commitment. In a growing number of cases, U.S. defense firms are submitting transactions to foreign governments for credit, only to have the transaction rejected. In the Netherlands, for example, these rejections are adding almost 50 percent to the country's current 100 percent offset demands.

Offset transactions have an *actual* and *credit value*. The actual value of the offset transaction is the market value of the offset. The foreign government placed a credit value on the offset based on its economic priorities. The credit value may be greater than the actual value of the offset. Foreign governments use *multipliers* (which increase the actual value) to provide firms with incentives to offer offsets in targeted areas of economic growth. A multiplier is applied to the off-the-shelf price of a more desirable service or product offered as an offset, thus giving a higher credit value to the defense firm towards fulfilling an offset obligation. For example, a foreign government interested in a specific technology may offer a multiplier of six. A U.S. defense company with 120 percent offset obligation from a \$1 million sale of defense materiel would ordinarily be required to provide technology transfer through an offset equaling \$1.2 million. With a multiplier of six, however, the U.S. company could then offer only \$200,000 (actual value) in technology transfer for a \$1.2 million credit value and fulfill its entire offset obligation.

Offsets are divided into two different types, direct and indirect. When the type of compensation, or offset, is directly related to the defense item or services exported, this is called a *direct offset*. These are usually in the form of co-production, subcontracting, training, production, licensed production, or possibly technology transfer or financing activities, which are explained below. Conversely, an *indirect offset* is a form of compensation that is unrelated to the contracted defense item. The kinds of offsets associated with this type vary widely among purchases, investment, training, financing activities, marketing and exporting assistance, and technology transfer.

For the purpose of analysis, BXA divides offset transactions into nine different categories:

- Technology Transfer - Transfer of technology that occurs as a result of an offset agreement and that may take the form of research and development conducted abroad; technical assistance provided to the subsidiary or joint venture of overseas investment; or other activities under direct commercial arrangement between the U.S. manufacturer and a foreign entity.
- Subcontractor Production - Overseas production of a part or component of a U.S. origin defense article. The subcontract does not necessarily involve license of technical information and is usually a direct commercial arrangement between the U.S. manufacturer and a foreign producer.
- Co-production - Overseas production based upon government-to-government agreement that permits a foreign government(s) or producer(s) to acquire the technical information to manufacture all or part of a U.S. origin defense article. It includes government-to-government licensed production. It excludes licensed production based upon direct commercial arrangements by U.S. manufacturers.

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- Licensed Production - Overseas production of a U.S. origin defense article based upon transfer of technical information under direct commercial arrangements between a U.S. manufacturer and a foreign government or producer.
  - Purchases - Procurement of off-the-shelf items from the offset recipient. Often, but not always, purchases are indirect by nature. Indirect purchases are similar in definition to countertrade while direct purchases are analogous to buy-backs.
  - Training - Generally includes training related to the production or maintenance of the exported defense item. Training may be required in unrelated areas, such as computer training, foreign language skills, or engineering capabilities.
  - Investment - Investment arising from the offset agreement, taking the form of capital invested to establish or expand a subsidiary or joint venture in the foreign country.
  - Marketing - Marketing assistance to foreign companies in either defense or unrelated industries. In some cases, countries require marketing in addition to the offsets. Also encompasses export assistance.
  - Other - Any other form of offset required or offered by a defense company/foreign government.

### **1.23 Offset Example**

An example is the easiest way to understand what an offset is and to identify all of the agents involved in these agreements. This example is invented and in no way represents an actual offset agreement. The fictitious nation of Atlantis purchased ten KS-340 jet fighters from a U.S. defense firm, PJD Inc., for a total of \$500 million with 100 percent offset. The offset agreement obligated PJD to fulfill offsets equal to the value of the contract, \$500 million. The government of Atlantis decided what would be required of PJD in order to fulfill its offset obligation, which would include both direct and indirect compensation. The government also assigned the credit value for each category.

- Direct (related to the export item, the KS-340 jet fighter)
  - Technology Transfer - The technology transfer requirement was assigned 36 percent of the total offset obligation. PJD agreed to transfer all the necessary technology and know-how to Atlantis firms in order to repair and maintain the jet fighters. The Atlantis government deemed this capability to be vital to national security and therefore gave a multiplier of six; the transfer of technology actually worth \$30 million was given the credit value equaled \$180 million.
  - Co-production - Atlantis firms manufactured some components of the KS-340 jet fighters, totaling \$220 million – 44 percent of the obligation.
- Indirect (not related to the production of the KS-340 jet fighter)
  - Purchase - PJD purchased marble statues from Atlantis manufacturers for eventual resale. This equaled 7 percent of the offset obligation, or \$35 million.
  - Financing Activities - PJD made investments in non-defense related industries in Atlantis; this accounted for 4 percent of the offset obligation, or \$20 million.

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- Technology Transfer - PJD provided submarine technology to Atlantis firms, which amounted to 6 percent of the offset obligation, or \$30 million.

- Marketing - Commercial assistance was provided for Atlantis fisheries to market their fish in the United States, which fulfilled the remaining 3 percent, or \$15 million, of the offset obligation. In this example, the Atlantis fisheries are *offset recipients*; they received marketing services for their product PJD hired an American advertising firm, the *offset fulfiller*, to market the Atlantis fish.

The offset agreement was for ten years with a three-year grace period. A timetable was created by the Atlantis government outlining which obligations should be fulfilled, to what extent, and when. If PJD did not meet the deadlines given, the company was required to pay the Atlantis government 5 percent liquidated damages. For example, if after ten years, only 98.5 percent of the offset obligation of \$500 million was fulfilled, PJD would be mandated to pay 5 percent of the 1.5 percent unfulfilled portion of the offset obligation equaling \$375,000.

### 1.3 Economics of Offsets

A basic analysis of offsets from an economic perspective is useful to determine the positive and negative impacts for both the purchasing and selling country or firm. When a government requires offsets, it directs labor and capital into industries that are deemed important and necessary instead of allowing the market to allocate inputs. This, in essence, subsidizes industries that receive benefits from offsets through government intervention. Countries with a small defense industry generally do not have sufficient sales volumes for either internal or external markets; therefore, they typically produce more expensive components than countries where firms are able to take advantage of economies of scale. These companies probably would not survive in a free market and therefore are being indirectly subsidized through offsets. Government attempts to allocate resources through offsets create and sustain these firms for national security, political, and employment reasons.

The implicit and explicit costs of offset agreements are often overlooked. The cost of fulfilling offset obligations can be substantial. Prime contractors also incur additional administrative expenses (added travel time, employee hours, insurance, legal and translation fees, etc.) due to prolonged negotiations. Also, additional employees with expertise in offsets often must be hired. For the duration of the offset contract, the prime contractor must monitor its fulfillment of its obligations in order to avoid penalties, adding additional costs. There can be many unforeseen costs that arise from any number of events associated with fulfilling offsets. Some of these costs are passed on to customers through increasing prices.

With indirect offsets, a defense company can be responsible for selling a product or providing services in which it has no expertise. For example, if marketing is a required offset, the defense company may hire a marketing firm, thus creating added costs. Firms operating outside their area of specialization incur additional costs, both for the prime contractor and the economy as a whole.

As discussed above, foreign governments direct offset benefits into areas that are believed to be nationally important; this may lead to emphasis on products that are not competitive. When foreign governments require offsets, they are creating inefficiencies for all involved, from the defense industry to the offset recipient. Moreover, defense companies are sometimes required to purchase from or market products for non-competitive companies. These inefficiencies result in higher prices for all industries involved and distort international trade patterns.

In addition to supporting unnecessary or non-competitive producers, when the foreign government dictates from whom the prime contractor must purchase or where to build

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subcomponents, market participants are no longer basing their decisions on market factors, such as price and quality. In reality this does not affect the defense contractor to a large degree, because most of the additional costs are passed on to the purchaser. However, this obscures the market value of goods. In addition, there can be a significant impact on U.S. suppliers to the defense prime contractor who are displaced.

The problem of non-market decisions is more serious when looking at the factors foreign governments use in procurement strategies. Some governments readily admit that they are no longer concerned with the price or quality of the defense system purchased, but rather with the scope of the offset package offered. Recently, the Czech Republic announced that in competition for its jet fighter procurement, offsets would be the deciding factor as opposed to technical and performance criteria and price.<sup>7</sup>

## **2.0 Statistical Overview**

This section provides a statistical overview of the data collected on new offset agreements and offset transactions from 1993 through 1998.

### **2.1 New Agreements**

The offset agreement is separate from the sales contract and outlines what the defense prime contractor promises as an offset over a specified number of years. The “new” offset agreement often summarizes the type of offset required by the foreign government, any areas that receive multipliers, the percentage of direct and indirect fulfillment requirements, any penalties for non-fulfillment, and the procedures for receiving credits. These agreements usually are for 5-10 years and are signed between the purchasing government and the prime contractor. The goods/services to be provided or purchased by the prime contractor as the offset are generally not specified in the contract.

#### **2.11 1998 Data New Agreements**

In 1998, U.S. prime defense contractors entered into 41 new offset agreements. The total defense export sales were valued at \$3.1 billion, with corresponding offsets equaling \$1.8 billion. Thus, the average offset required was 57.9 percent of the value of the sales item. U.S. prime defense contractors entered into these new agreements with 17 countries. This year, defense prime contractors signed a new agreement with a country not previously reported – New Zealand. Greece was the highest defense purchaser in 1998 and also had the highest value of offsets, with \$547.4 million in offset obligations. Canada had the highest offset obligation, with offsets totaling over 100 percent of the value of the defense sales. Denmark, Germany, the Netherlands, Norway, and Switzerland all required high levels of offsets, with 100 percent. The average time U.S. prime contractors were allowed to complete their offset obligations was 80 months (6.7 years), up six months from 1997. The time period ranged from one year to 15 years.

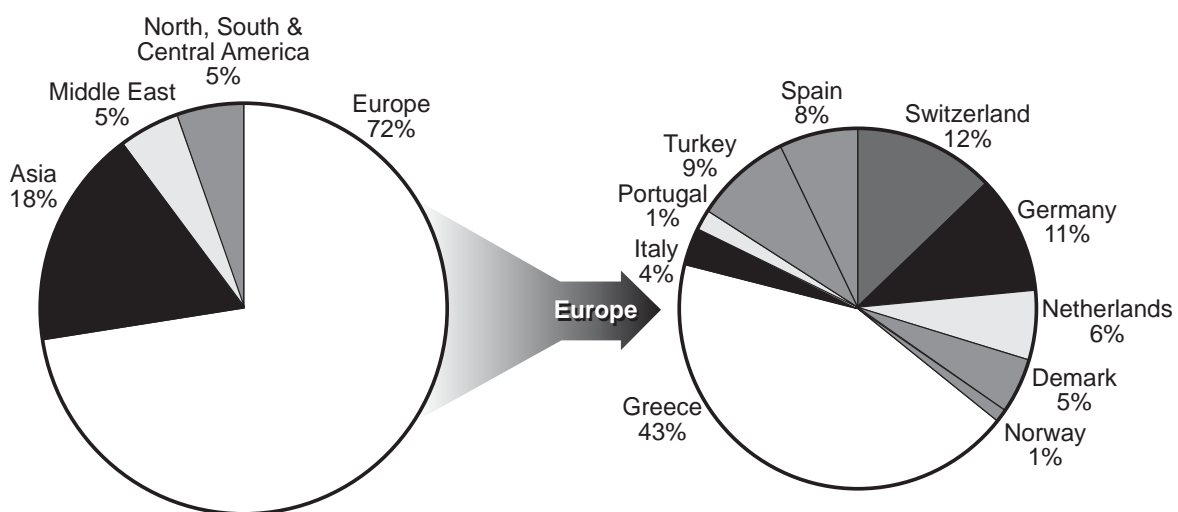
Europe dominated U.S. defense purchases and the total amount of offsets provided by U.S. prime contractors, as shown in **Chart 1**. In 1998 alone, new offset agreements in this region totaled \$1.3 billion; this was 72.3 percent of the value of all U.S. offsets. Asia, the second highest, comprised 17.9 percent, while the Middle East and the Americas were only 5 percent each. Even though Europe accounted for almost three-fourths of all offsets by value, the region entered into only half of the total associated defense contracts with the world. The average offset percent for Europe was 81.6 percent, up slightly from the previous year; this is 23.7 percent higher than the global average.

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<sup>7</sup>Czech MIT Committee Reviews Fighter Offset Bids. *Countertrade & Offset*, Vol XVII, No. 22, 22 November 1999.

Of the 41 new agreements, 21 were concluded with Europe, half of which required more than 95 percent of the value of the defense item in offsets. Further, Australia (with overall average offsets of 28 percent) and Canada (with overall average offsets of 168 percent) were the only non-European countries with some new offset agreements in 1998 for 100 percent or more. See **Table 1** for a summary of new agreements data, comparing European nations with the rest of the world. It is clear from these data that the leading European economies continue to have the highest offset requirements in the world. The five nations with the highest requirements in the table below have among the highest per capita incomes in the world. And, with the exception of the Netherlands, the United States runs overall (defense and non-defense) trade deficits with each of the top five. Trade balance figures for 1998 are also included in **Table 1**.

**Chart 1**  
**The Regional Share of the Value New Offset Agreements in 1998**



Source: U.S. DOC/BXA Offset Database



**Table 1**  
**Average New Offset Agreements**  
**and U.S. Trade Balances - 1998**

<b>Country Receiving the Offset</b>	<b>Average Offset Percent Required</b>	<b>U.S. Trade Balance (U.S. Dollars in Millions)</b>
Switzerland	100%	\$-1,422.9
Germany	100%	-23,184.6
Netherlands	100%	11,378.4
Denmark	100%	-520.7
Norway	100%	-1,162.3
Greece	90%	888.5
Italy	70%	-11,968.2
Portugal	60%	-377.0
Spain	50%	673.4
<b>Overall</b>	<b>82%</b>	
<b>Non-European</b>		
Canada	168%	\$-16,652.6
Turkey	55%	962.8
Israel	39%	-1,657.1
S. Korea	35%	-7,456.3
Tawian	33%	-14,960.3
Kuwait	30%	\$258.1
Australia	28%	6,530.7
<b>Overall</b>	<b>37%</b>	

Source: U.S. DOC/BXA Offset Database

## 2.12 1993 to 1998 Data - New Agreements

From 1993 to 1998, U.S. prime contractors signed 279 new offset agreements totaling \$21 billion, which corresponded to \$38.5 billion in U.S. defense export sales. These new agreements averaged 54.5 percent of the value of the defense item. The average term for completing the offset agreements was 86.7 months, a little more than seven years. New offset agreements were concluded with 31 nations; agreements were also signed with NATO and the European participating governments (EPG), which includes Belgium, the Netherlands, and Norway. **Table 2** summarizes the new offset agreement activities for the six-year period.

**Table 2**  
**Distribution of New Offset Agreements by Year, 1993 to 1998**

<b>Year</b>	<b>Value of Defense Contracts</b>	<b>Value of Offset Agreements</b>	<b>Average Percent Offset Required</b>	<b>Average Duration of Agreement (in months)</b>	<b>Number of New Agreements</b>
1993	\$13,934,998,420	\$4,784,428,535	34.3%	84.71	28
1994	4,962,216,660	2,061,815,658	41.6%	92.19	50
1995	7,420,046,200	6,052,103,816	81.6%	92.13	46
1996	3,119,670,454	2,422,624,635	77.7%	93.35	53
1997	6,016,683,527	3,882,962,262	64.5%	77.86	61
1998	3,094,014,147	1,790,834,882	57.9%	80.03	41
<b>Total</b>	<b>\$38,547,629,408</b>	<b>\$20,994,769,788</b>	<b>54.5%</b>	<b>86.71</b>	<b>279</b>

Source: U.S. DOC/BXA Offset Database

As shown in **Table 2**, offset percentages vary because of the cyclical nature of defense purchases (and related agreements), and the percentages demanded also vary by region. However, as shown in **Chart 4**, offset percentages have been steadily increasing since 1980.

**Chart 2** shows the distribution of the largest offset obligations by country or region. Approximately 72 percent, or \$27.8 billion, of the value of new offset agreements was attributed to European nations; the United Kingdom alone was responsible for 23 percent. Following the United Kingdom are the Netherlands and Switzerland with 9 percent each. Most European nations require at least 100 percent offsets on defense procurements while non-European nations make actual offset burdens more manageable through the use of multipliers or smaller offset requirements.

Other countries with a significant percentage of the new offset agreements were Taiwan with 8 percent; and Saudi Arabia and Italy with 7 percent each. Some of these countries had only a few large offset agreements, while others had more than twenty agreements.

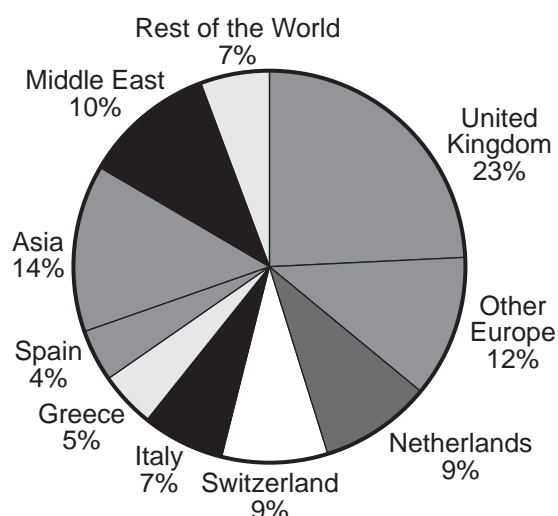
Almost one half of all new agreements required 100 percent or more in offsets. Europe constituted the majority of offset agreements that were greater than 100 percent. The United Kingdom accounted for 44 percent of all offset agreements over 100 percent in Europe. Of the offset agreements that were above 100 percent, Greece, the Netherlands, Norway, Sweden, and Turkey averaged approximately 115 percent or more. The Netherlands was almost 125 percent. Brazil, Canada, and South Korea were the only other non-European nations to require more than 100 percent in offsets.

As shown in **Chart 3**, the average time U.S. prime contractors were allowed to complete their offset obligations was 87 months (7.25 years). The time period for fulfillment ranged from one to 15 years.

### 2.13 Long-Term Trends

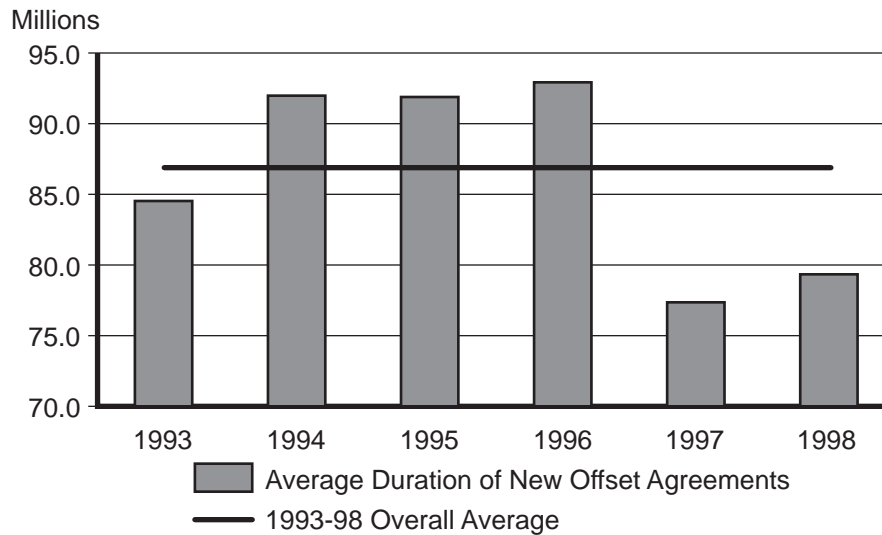
In order to ascertain long-term trends, **Chart 4** combines data collected by the Office of Management and Budget from 1980 through 1987 with BXA data for 1993 through 1998 to show a long-term trend in offset requirements. No data was collected from 1988 to 1992. While it appears from the offset percent line that offset percentages overall are varying widely, the trend, as shown by the log of the offset percent, is gradually increasing. There is a cyclical pattern in the data, with increases in defense exports, and therefore offsets, corresponding to major military conflicts around the world. While this is a useful examination, it is important to note that there are differences in the methods used by each agency to collect data.

**Chart 2**  
**New Agreements, 1993 to 1998**



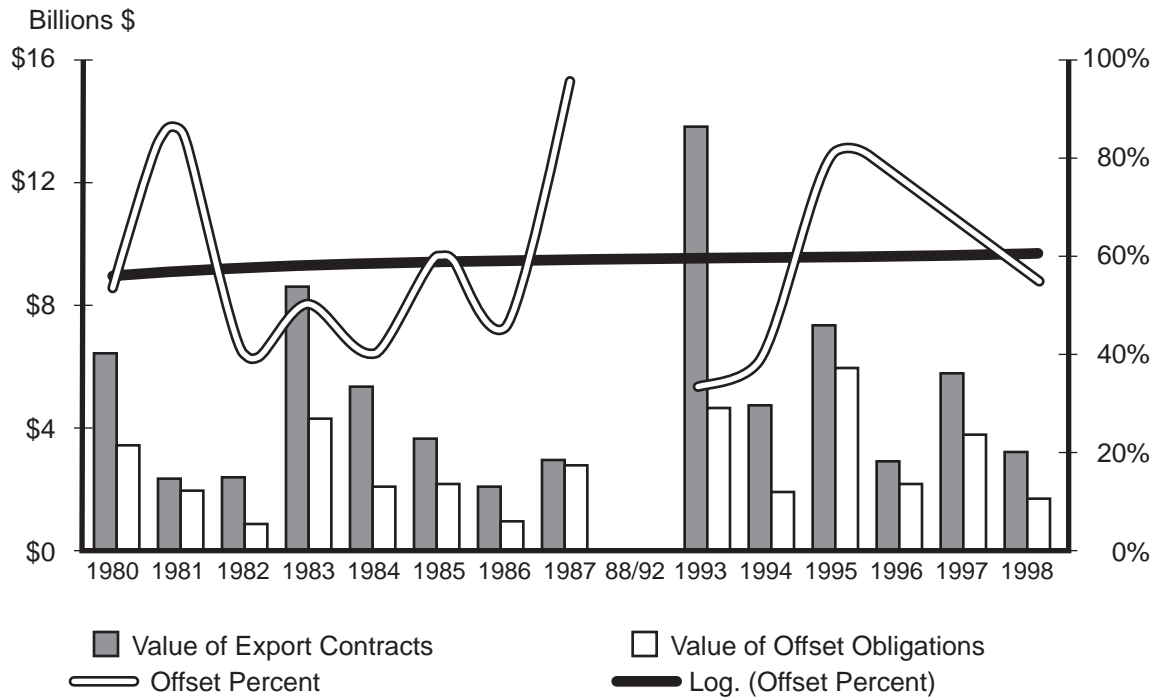
Source: U.S. DOC/BXA Offset Database

**Chart 3**  
**Average Duration of New Offset Agreements, 1993 to 1998**



Source: U.S. DOC/BXA Offset Database

**Chart 4**  
**Trend of New Offset Agreements, 1980 to 1998**



Source: U.S. DOC/BXA Offset Database

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## 2.2 Offset Transactions

Offset transactions are the means by which defense firms obtain credits to fulfill the terms of an offset agreement. These transfers of goods or services are categorized into nine areas, as defined in Section 1.2. The foreign government has the ultimate authority as to which offset credits are deemed acceptable. For example, the Netherlands offset authority denies credit for almost 40 percent of all completed offset transactions submitted.<sup>8</sup>

The foreign government may assist the U.S. defense contractor in choosing a local company to benefit from the offset. Benefits are usually directed to specific industries deemed important by the government or to areas that will boost economic growth. The latter may include projects such as infrastructure improvements – roadways, telephones, electricity, etc. If the offset transactions are not in the area of expertise of the defense company, the U.S. company will often hire a third party, the offset fulfiller, to provide or purchase the specified goods or services. The third party may be located anywhere in the world.

Certain countries allow defense contractors to enter into *pre-offset* transactions. This means the defense firm provides offsets not associated with a specific defense system or offset contract. These pre-offset transactions may be required in order to win new sales. If the defense company does not win the sale, these credits may be banked for future contracts or traded, or, in some cases, the company may forfeit the credits and therefore all investments associated with the pre-offset transactions. The BXA has been unable to determine whether companies report these transactions when eventually applied toward an obligation.

### 2.21 1998 Offset Transaction Data

In 1998, 17 U.S. defense firms reported \$2.28 billion in offset transactions with 29 different countries and one group of nations. The value of these transactions declined 18.7 percent from 1997 and received offset credit equaling \$2.6 billion, or 114 percent of their actual value. The top three U.S. defense companies providing offsets accounted for 85.6 percent of the value of all reported transactions. Europe was by far the largest offset recipient, with more than 80 percent of all offsets, followed by Asia with only 9 percent. As in previous years, the United Kingdom is the largest offset recipient, receiving 26.2 percent of the value all European transactions and 21.4 percent of all transactions. Following the United Kingdom was Italy with 22.3 percent and 18.2 percent respectively, while Finland received 11.3 percent and 9.2 percent. **Table 4** represents the dollar values of the percentages.

**Table 4**  
**1998 Actual Value of Offset Transactions for the Top Seven Countries**

Country	Actual Value of the Offset
United Kingdom	\$487,345,790
Italy	414,517,732
Finland	209,319,336
Switzerland	156,265,139
Netherlands	153,821,677
Israel	140,042,316
Germany	105,957,507

Source: U.S. DOC/BXA Offset Database

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<sup>8</sup>Defense Industry Offsets Association Annual Meeting, 2000.

Industry and government debate whether or not foreign governments are demanding more indirect offsets. While past offset data showed that much of the increase in offset activity was derived from growth in indirect transactions with slight increases in direct offsets, for 1998 the data changed dramatically. In 1998, direct offsets totaled \$1.43 billion, 62.6 percent of the value of all offsets; this is a 39 percent increase from 1997. This significant rise can be explained by two large transactions that totaled more than \$470 million. Indirect offsets constituted the remaining activity, equaling \$850 million. As mentioned before, direct and indirect offset transaction statistics vary from year to year, depending on the purchasing nation and its offset policy.

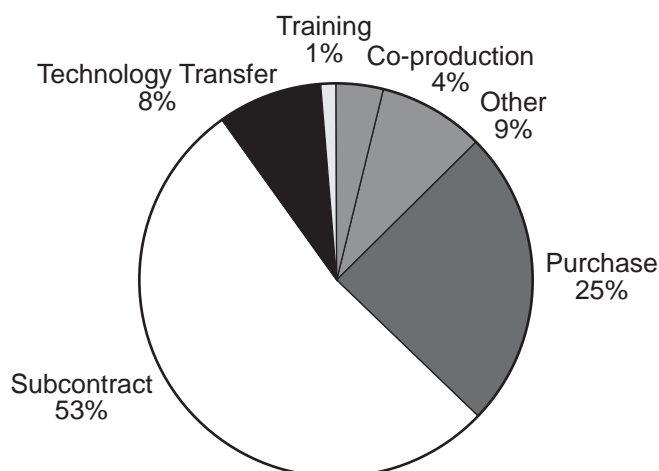
### 1998 Offset Transactions by Category

**Chart 5** depicts 1998 offset transactions by category. Direct offsets tend to be subcontracts, coproduction or licensed production. Subcontracts made up more than half of the value of the offsets. A quarter of the transactions were purchases, which are generally associated with indirect offsets. Approximately 8 percent of the transactions were technology transfers; these can be either directly or indirectly related to the exported defense item.

### 2.22 1993 to 1998 Offset Transaction Data

As stated in the previous section, the 1998 transaction totals are an anomaly compared to the previous years, as direct offsets increased while overall fulfillments decreased. Offset transactions totaled \$14.1 billion in actual value from 1993 to 1998. U.S. companies completed 3,432 transactions with 33 countries, NATO and the EPG.

**Chart 5**  
**1998 Offsets by Category**



Source: U.S. DOC/BXA Offset Database

### Offset Transactions by Country

**Table 5** ranks the top fifteen countries that received offsets transactions from 1993 to 1998. Three countries alone received \$8.2 billion in offsets, which accounted for 58 percent of the total value of all transactions. In contrast to new agreement data, Finland, not the United Kingdom, was the largest offset transaction recipient with over \$2.8 billion. This is in part because of a \$3 billion F/A-18 sale in 1993, which predates the BXA new offset agreements database. Otherwise, the United Kingdom, with \$2.3 billion in offset transactions, would be the largest recipient. Israel, a country that receives U.S. Foreign Military Funding (FMF), is third with \$1.1 billion. This unique relationship, where Israel receives aid to purchase U.S. defense equipment and then requires offsets of U.S. companies, is discussed in detail in Section 3.22.

**Table 5**  
**Top 15 Offset Receiving Countries, 1993-1998**

<b>Country</b>	<b>Total Value of Offset Transactions</b>	<b>Total Credit Value Awarded</b>
Finland	\$2,841,871,720	\$3,055,539,227
United Kingdom	2,304,668,346	2,325,444,232
Israel	1,119,243,485	1,175,855,823
Switzerland	997,642,368	1,002,737,749
Netherlands	920,900,179	1,199,259,359
South Korea	755,398,266	1,048,795,766
Spain	591,558,212	765,357,153
Turkey	582,611,073	618,415,554
Italy	528,869,332	528,869,332
Germany	515,665,208	515,665,208
Australia	433,608,945	457,763,945
Canada	405,740,905	410,165,555
Greece	357,881,677	553,476,527
Taiwan	312,791,603	835,396,483
Malaysia	256,557,399	291,257,399

Source: U.S. DOC/BXA Offset Database

More than a thousand foreign companies and government agencies received offset transactions from U.S. firms. The top nine recipient companies received more than \$2 billion in transactions over the six-year period, as shown in **Table 6**, which equals more than 15 percent of the actual value of all offsets transactions. The largest company continues to be Valmet, a Finnish company, who received \$458 million in offsets. A new addition, Elmer, an Italian firm, received \$370 million and joined the group of leading recipients for the first time. The top six foreign government agencies received a little less than 8 percent of all transactions. The Israeli offset agency, Industrial Cooperation Authority (ICA), was the largest government agency recipient, with \$409 million.

### **2.221 Multipliers**

The \$14.1 billion in transactions received \$16.6 billion in offset credits; this is 118 percent of the actual value. So, U.S. defense firms are receiving an average multiplier of 1.18. This is quite low in comparison to what many official offset policies promulgate as possible (see **Appendix E**, starting on page 104 in this Journal, for an overview of countries' offset policies). Most industrializing countries offer higher multipliers, an average of 1.37, which is 20 percent higher than the industrialized nations. However, industrializing nations constituted only 15 percent of the value of all offsets, so the higher multipliers rarely relieve U.S. prime contractors. The United Kingdom, Switzerland and Canada, countries who received 26 percent of the value of all offset transactions, do not even allow multipliers and require 100 percent offsets on all defense procurements. Industrializing nations, such as Taiwan, Malaysia, South Korea and Greece, gave an average multiplier of 1.69; yet, as shown in **Table 5**, they accounted for only 12 percent of the value of all offset transactions.

**Table 6**  
**Top Offset Transaction Recipients,**  
**Private and Government, 1993 to 1998**

Recipient	Country	Total Value of Offsets
<b>Industry</b>		
Valmet	Finland	\$458,105,526
Elmer	Italy	370,171,078
Fokker	Netherlands	257,830,539
Kvaerner Masa-Yards	Finland	208,134,000
Samsung	South Korea	204,628,741
Sitra	Finland	201,600,000
GEC Marconi	United Kingdom	184,531,418
Reflectone	United Kingdom	141,409,000
Smiths	United Kingdom	131,245,847
<b>Government</b>		
Industrial Cooperation Authority	Israel	408,883,000
Air Force	Turkey	167,738,000
Navy	Greece	141,584,000
Ministry of Defense	South Korea	130,221,996
Ministry of Economic Affairs	Netherlands	102,394,000
Ministry of National Defense	Turkey	116,094,825

Source: U.S. DOC/BXA Offset Database

### 2.222 Offset Type: Indirect vs. Direct Offsets

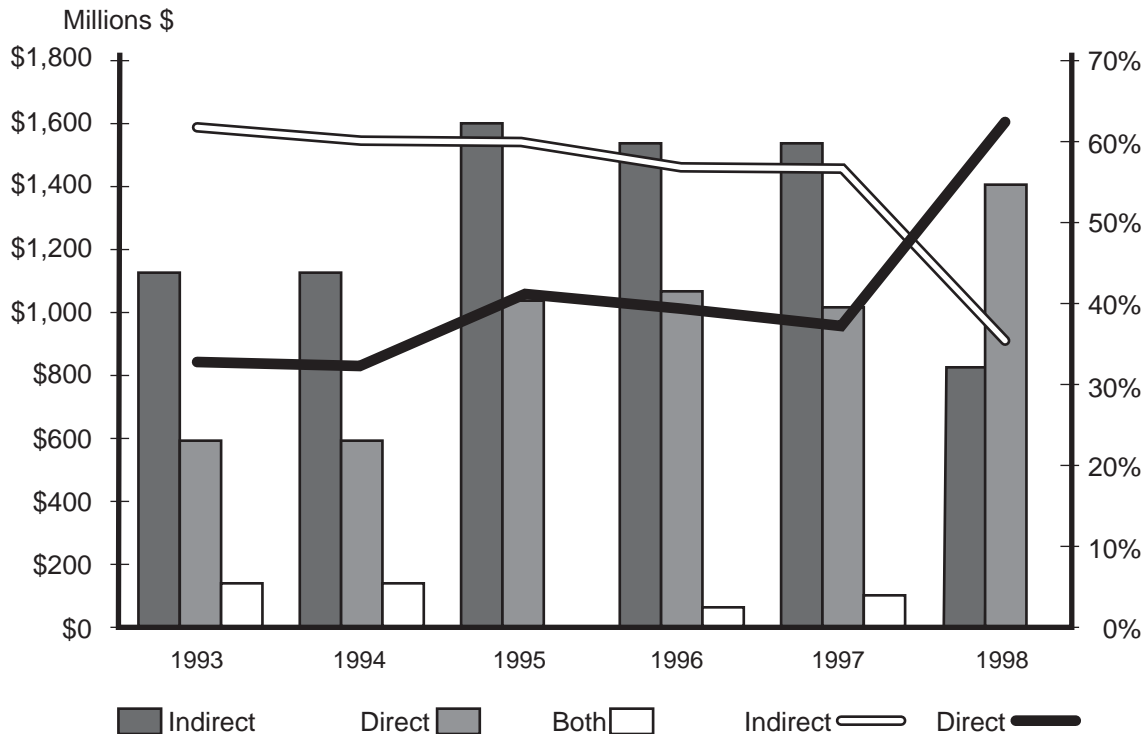
As discussed in the Section 2.21, the distribution of 1998 offset transactions between direct and indirect is an anomaly. Anecdotal evidence suggests that offsets are becoming more indirect while the data (**Chart 6**) show direct offsets are actually increasing. The notion that indirects are rising stems from recent changes in offset policies. For example, in 2000, South Korea switched its offsets focus from directly related technology to any offset that would increase employment levels, thus opening the door for more indirect offsets. These modifications in official offset guidelines are not yet reflected in the data, as there is a lag between the codification changes and industry reporting.

Indirect offsets were the largest type for the period, totaling \$7.8 billion or 55 percent of the actual value of all transactions. Meanwhile, direct offsets were \$5.8 billion or 41 percent of the total. The remaining \$500 million offsets were either unspecified or both direct and indirect. Since there was a large increase in direct offsets and decline in indirects, 1998 data significantly increased the overall direct percentage. It is difficult to hypothesize whether or not this trend will continue. However, with the recent shift in offset guidelines, and given that most of the change in 1998 resulted from a few large transactions, it is highly unlikely.

### 2.223 Offset Transactions By Category

**Chart 7** breaks down offset transaction activity by category for 1993 to 1998. The majority of offset transactions, 66 percent of the value, are categorized as either purchases (generally indirect offsets) equaling \$5.1 billion or subcontracts (generally direct offsets) totaling \$4.1 billion. Technology and credit transfers worth \$1.6 billion and \$1 billion respectively constitute a majority of the remaining offsets.

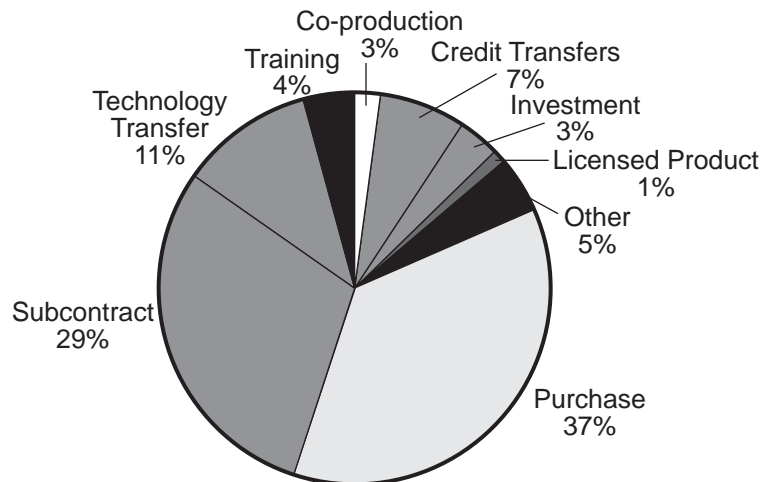
**Chart 6**  
**1993-1998 Offset Transactions: Direct and Indirect**



Source: U.S. DOC/BXA Offset Database

Both purchases and subcontracts increased overall during the six-year period, as seen in **Chart 8**, although purchases fell in 1998 in line with other indirect offsets. Since 1995, investments, credit transfers, and technology transfers have steadily declined as a form of offset while the unclassifiable (other) category has increased. The various means to fulfill offset requirements are increasingly complex, making it difficult to categorize offset activities. This might account for the increase in unclassifiable offset activity and the subsequent decline in the previously mentioned categories. Training, which remained relatively constant for the first four years declined dramatically in 1997 and 1998. The overall trend shows a movement away from investments, credit transfers, and technology transfers, which allowed for higher markup for the prime contractors, toward purchases and subcontracts, more tangible offsets which have more of a direct effect in displacing U.S. subcontractors.

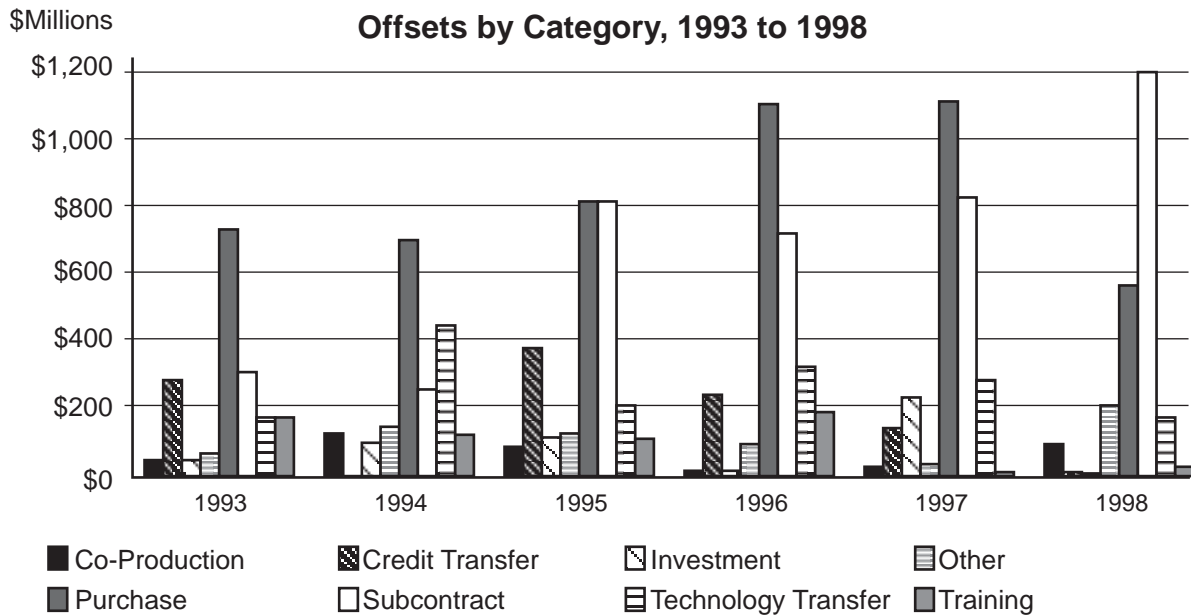
**Chart 7**  
**1993 to 1998 Total Transactions by Category**



Source: U.S. DOC/BXA Offset Database



Chart 8



Source: U.S. DOC/BXA Offset Database

The distribution of the type of offset, direct vs. indirect, differs from category to category. **Table 7** breaks down each offset category by type. As shown, investments, credit transfers and unspecified are usually indirectly related to the defense item sold while training is typically direct. Technology transfers are fairly evenly distributed between both types with a propensity towards indirect.

The makeup of these offsets by type, direct vs. indirect, within each category has changed remarkably over the past six years. Since 1995, there have not been any direct credit transfers, and indirect credit transfers have steadily declined. Indirect investments, on the other hand, rose rapidly from 1993. There was only one year, 1994, with a directly related investment. Direct licensed production has remained relatively constant over the years with only one year of indirects in 1994. Excluding 1998, direct technology transfers have risen from \$65 million in 1993 to \$160 million 1997; in 1998, there was a sharp decline to \$60 million. From 1993 to 1995, indirect technology transfers increased from \$79 million to \$93 million and have hovered at around \$130 million since. Training in both types has consistently declined over the six-year period. Finally, unspecified offsets in both types have steadily increased from 1993 to 1998; indirects grew from \$48 million to \$115 million, and direct moved from \$10 million to \$79 million.

**Table 9** shows all offsets by main industry group at the two-digit standard industrial classification (SIC) code level for 1993-1998. As in previous years, transportation equipment was the largest industry group of offset activity, with approximately 34 percent of the value of all transactions. This is to be expected as 41 percent of all offsets were directly related to the defense item sold, which are generally aerospace-related and usually categorized in this group. The next largest group was a distant second with only 9 percent of all offsets, electronic and other electric equipment. Following closely behind electronic equipment was industrial machinery and equipment, which accounted for 6 percent of the value of all offset transactions.

**Table 7**  
**Offset Category by Type, 1993 to 1998**

<b>Offset Category</b>	<b>Offset Type</b>	<b>Actual Value of Offset</b>
Investment	Direct	\$3,850,000
	Indirect	412,103,500
	Unspecified	73,743,000
Credit Transfers	Direct	\$4,004,427
	Indirect	1,044,810,630
Technology Transfer	Direct	\$688,396,422
	Indirect	827,873,323
	Unspecified	90,733,540
Training	Direct	\$401,016,129
	Indirect	189,002,727
	Unspecified	1,863,000
Unspecified	Direct	\$147,775,480
	Indirect	490,342,776
	Unspecified	1,188,000

Source: U.S. DOC/BXA Offset Database

There are some interesting trends and changes in the make-up by type, direct vs. indirect, of the top three industrial groups. The value of direct transactions in aircraft equipment has consistently risen from 33 percent of all related transactions in 1993 to 80 percent in 1998. Overall, direct transactions account for 55 percent of the value of all transactions in this category, while indirect are 40 percent and unspecified comprising the remainder. Direct offsets comprised 64 percent of the value of all transactions in the electric equipment category, while indirects accounted for the remaining portion. In 1995 and 1996, offsets in this industry group were evenly distributed by type. In 1997, however, direct offsets increased dramatically, causing direct to be dominant; this pattern continued in 1998 as well. Finally, 90 percent of all industrial equipment transactions were directly related to the sales item. Except for 1996, direct offsets have consistently been the largest portion in this industry group.

In the top three industry groups, due to the direct nature of these categories, it is expected that the majority are directly related to the defense item. For some main industry groups, offsets are primarily indirect. For example, business services was mainly indirect, totaling 78 percent of the value, with direct accounting for 23 percent over the six-year period. However, direct offsets in this group have been consistently increasing. In non-depository institutions, 99 percent of the value of transactions is indirect from 1993 to 1998.

Over 11 percent of the value of all offset transactions, \$1.5 billion, were related to the sale of aircraft engines. These offsets were split evenly among direct, indirect and unspecified. Most, 66 percent of these transactions, were classified as transportation equipment. The next industry group was fabricated metal products, which made up 9 percent. Engineering, accounting, research, management and related services followed with only 5 percent.

**Table 9**  
**Offsets Provided by Main SIC Code, 1993-1998**

<b>Main Category</b>	<b>Total Actual Value of Offsets</b>
37 Transportation Equipment	\$6,735,249,792
36 Electronic & Other Electronic Equipment	1,793,039,687
35 Industrial Machinery & Equipment	1,181,969,976
73 Business Services	688,532,783
38 Instruments & Related Products	649,891,002
61 Non-depository Institutions	541,163,725
87 Engineering & Management Services	535,542,346
34 Fabricated Metal Products	439,765,709
67 Holding & Other Investment Offices	309,072,900
82 Educational Services	233,697,427
50 Wholesale Trade, Durable Goods	229,644,109
Not Classified	170,206,525
28 Chemicals & Allied Products	91,524,171
33 Primary Metal Industries	76,317,926
89 Services (Not Included Elsewhere)	65,735,818
48 Communications	50,003,000
07 Agricultural Services	39,228,000
97 National Security & International Affairs	32,300,000
15 General building Contractors	29,992,359
27 Printing & Publishing	29,403,008
26 Paper & Allied Products	21,089,000
20 Food & Kindred Products	15,466,000
13 Oil & Gas Extraction	12,178,000
45 Transportation By Air	11,360,300
32 Stone, Clay & Glass Products	11,344,000
55 Automotive Dealers & Service Stations	10,346,814
22 Textile Mill Products	6,362,020
76 Miscellaneous Repair Services	6,111,623
44 Water Transportation	5,208,237
39 Miscellaneous Manufacturing Industries	5,100,000
30 Rubber & Miscellaneous Plastics Products	4,310,302
17 Special Trade Contractors	3,874,000
23 Apparel & Other Textile Products	3,813,418
16 Heavy Construction (Except Building)	3,510,167
47 Transportation Services	3,474,921
51 Wholesale Trade, Non-durable Goods	3,065,665
14 Nonmetallic Minerals Mining (Except Fuels)	2,727,536
42 Trucking & Warehousing	1,451,000
57 Furniture & Home Furnishing Stores	1,324,046
62 Security & Commodity Brokers	1,302,000
49 Electric, Gas, & Sanitary Services	1,085,200
53 General Merchandise Stores	835,629
95 Environmental Quality & Housing Administration	635,000
81 Legal Services	75,000
80 Health Services	28,000
79 Amusement & Recreation Services	22,336
41 Local & Interurban Passenger Transit	11,488
<b>Grand Total</b>	<b>\$14,058,391,965</b>

Source: U.S. DOC/BXA Offset Database

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### 3.0 Offsets in Developed vs. Developing Nations

This chapter provides examples of offset policies for developed and developing countries. U.S. companies provided \$2 billion in offset activities to industrializing countries over the six-year period analyzed, and about \$12 billion to industrialized countries for the same period. For industrializing countries, indirect offsets were the most commonly provided offset, equaling 63 percent, while direct was 36 percent, and unspecified 1 percent. In contrast, industrialized nations require more direct offsets, 42 percent, while indirect constituted 54 percent and unspecified 4 percent.

#### 3.1 Developing Nations and Indirect Offsets

Developing nations use defense purchases and related offsets to provide for security needs as well as much needed infrastructure projects. Developing nations usually operate under budget constraints, and offsets seem to be a good solution to this problem. (This form of indirect offsets is productive only when governments and prime contractors work closely together to effectively and efficiently utilize resources.)

#### 3.11 Czech Republic: The Development of an Offset Policy

The fall of the Berlin Wall has brought new opportunities for the Czech Republic and specifically its national defense industry. Despite a difficult period of transition in Czech industry, industry observers feel the Czech military industry is ready to expand. After seeing its military sales figures and employment levels steadily decrease for much of the last decade, Czech officials hope to recapture the nation's tradition of military manufacturing.<sup>9</sup>

Although NATO officials have recommended the Czech Republic focus more on recruiting and training its military personnel, Czech Republic officials are anxious to begin acquiring advanced weaponry. In May 2000, *Defense News* quoted an official from the Czech Foreign Ministry as saying it is the goal of the Czech Republic to be "a real ally and not a free-rider."<sup>10</sup> Therefore, there are new opportunities for Western aerospace contractors looking to establish themselves in the Czech market. The Czech Republic sees this stage of development as a time to maximize the financial benefits of its future purchases by instituting its own offset policy.

Recognizing its leading role as one of the most advanced economies in Central Europe and its important status in the international market for defense items, the Czech Republic formalized an offsets policy in 2000. The policy aims to increase levels of foreign investment in the Czech Republic, especially in civil sectors of society such as high technology and science. In 1998, the drafters of the legislation indicated that they also view offsets as a way to acquire new technology, increase employment opportunities for Czech Republic citizens, enhance sustainable economic development, and effectively further "the economic interests of the Czech Republic."<sup>11</sup>

The Czech government was able to draw from the offset experiences of other European nations while formalizing their own rules for offsets. The Ministry of Trade and Industry (MTI) consulted with government officials from European allies, such as Great Britain, France, Finland, and Denmark, and held several conferences on the utility of offsets for the Czech Republic with representatives from both private industry and the government. In May 2000, one Czech official

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<sup>9</sup>Green, Peter S. "Where the Armorers No Longer Thrive." *The New York Times*, Sunday, April 2, 2000.

<sup>10</sup>Hill, Luke, "Czech Fighter Decision Taxes to Runway," *Defense News*, May 8, 2000.

<sup>11</sup>Czech Republic, Ministry of Industry and Trade; Ref. 311147/98/6110/1000, PID: MIPOX005WHYE, Order No. 26/98 of the Ministry of Industry and Trade on implementation of offset programmes; December 1, 1998.

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noted that when Finland recently negotiated a deal for F/A-18s, it required 150 percent in offsets. The official said the example “is a good one” for what the Czech Republic hopes to achieve.<sup>12</sup>

The decision to codify its policy on offsets coincided with the Czech Republic’s announcement of its plan to devote \$2 billion for the purchase of new fighter aircraft to replace its fleet of Russian MiGs. Since as early as March 1999, Czech Republic government officials have stated that offsets will be the main criteria for deciding which fighter aircraft they purchase. Because Czech officials view the technical parameters of the fighter jets being offered as so similar, offset packages will outweigh technical factors and price when making a final decision.

Realizing this new opportunity for sales, the Czech Republic has been inundated with offers from major international aerospace contractors. The companies vying to conclude deals with the Czech government include Boeing with its F/A-18, Lockheed Martin with its F-16, British Aerospace-Saab with the JAS-39 Gripen and Dassault Aviation with its Mirage 2005. In addition to presenting their product, each firm is constructing offset packages (each of which will be at least 100 percent) and starting to create a niche for itself in the Czech economy.<sup>13</sup>

Boeing bought 34 percent of Aero Vodochody, a Czech firm, as a pre-offset and won a contract to supply 737s to Czech Airlines. It was valued at \$33 million and resulted in a deal between Boeing and Czech Airlines. Boeing’s subsidiary, Ayers, also bought LET Kunovice, a major producer of commuter planes. Ayers plans to move part of the production line for its own planes to LET. Lockheed Martin’s pre-offset activities included a technology transfer program with Skoda Elcar, a Czech manufacturer of transportation equipment. Saab and British Aerospace have also started to make pre-offset arrangements with the Czech government.<sup>14</sup>

### 3.12 United Arab Emirates: The Use of Offsets

The United Arab Emirates (U.A.E.) has developed an extensive offset policy aimed at developing its economy. The U.A.E. Offsets Group (U.O.G.) administers the program and seeks suppliers who show a commitment to the growth of the U.A.E., not just to the procurement or the offset agreement. In this sense, the U.A.E. offset program is a prime example of a developing country using defense procurements to benefit other aspects of its economy. As Dr. Amin Badr-El-Din comments in a U.O.G. brochure,

*The aim of our offset program is to enhance security by leveraging off our defense procurements to fulfill both our military and economic goals simultaneously . . . The U.A.E. offset program is designed to generate wealth among the people of the U.A.E. and assist with the global integration of its economy by the creation of commercially viable ventures through partnerships and strategic alliances between the domestic private sector and international business.*<sup>15</sup>

Offsets are required on all U.A.E. armed forces procurements over \$10 million. Offsets must be a minimum of 60 percent of the imported content of the defense item. Pre-offset credits may help a prime contractor win an award; the credits may later be traded or banked for future obligations. Prime contractors may choose to fulfill offset obligations in any industry except oil. Credit is awarded based on the profits of the projects undertaken in the offset program. Since the

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<sup>12</sup>Hill

<sup>13</sup>*Offset Requirements of Major Arms Importers – Additional Information*; “Czech Republic”, <http://area51.upsu.plym.ac.uk/dgadd/offsets/offreqag.html>.

<sup>14</sup>*Countertrade & Offset*, Vol, XVII, No. 10, May 24, 1999.

<sup>15</sup>“Partnerships for a Better Future” Brochure, U.A.E. Offsets Group.

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U.O.G. strives to increase its gross domestic product (GDP) per capita, credits will not be awarded for projects that are labor intensive.

Between 1993 and 1998, U.S. defense prime contractors signed \$180 million in new offset agreements in connection with \$325 million in export sales, for an average of 55 percent required offsets. During this same time period, U.S. primes fulfilled part of these and previous agreements with \$65 million worth of transactions, receiving \$206 million worth of credits. These credits average a multiplier of 3.2.

The U.O.G. has been quite creative in generating new ways to fulfill offsets and help the economy. For example, offsets were used to manage Ghantoot, a world-class polo and racing facility that stages annual international events.<sup>16</sup> The U.O.G. encourages foreign offset partners to launch initial public offerings (IPOs) for all of their joint venture projects. Not only do the IPOs raise money for the projects, but they also increase profits. In 1998, a new joint venture company called International Fish Farming Company was created for offset credits, in which Dassault and other foreign partners provided 45 percent of the capital investment and 55 percent came from public and IPO funding. Recently, Boeing joined Berlitz International, Inc. and local investors to fulfill an offset obligation by establishing a Berlitz Language Center in Abu Dhabi.<sup>17</sup>

In early 2000, the United States approved the sale of 80 F-16s to the U.A.E.. The radar equipment on the U.A.E. fighters will be technologically superior to any other F-16s made to date, including those used by the U.S. military. With the nature of the U.A.E. offset program and its requirement for partnerships, the U.A.E. is paying for the majority of the research and development for the new technology.

### **3.2 Industrialized Nations and Direct Offsets**

Industrialized countries in Europe originally received offsets from the United States after World War II. These offsets were mainly direct to help these countries rebuild their defense industries. Indirect offsets provided at this time were also focused on rebuilding, consisting mainly of infrastructure projects and public works very similar to those that developing countries now receive.

In recent years, however, European nations have less justification for demanding direct or indirect offsets. Their economies are among the most developed in the world. The United States is now subsidizing strong industrialized countries in their efforts to further enhance existing competitive industries. Further, many European countries use offsets to make up for their lack of spending on defense and related research and development.

#### **3.21 Finland: The Work of Indirect Offsets**

Finland is a prime example of an industrialized country that receives large amounts of indirect offsets. Finland requires 100 percent offsets on any defense procurement over FIM 50 million (about \$7.4 million). Based on offset policy changes initiated by the Finnish Ministry of Trade, which took effect in 1998, the current Finnish offset policy focuses on indirect offsets.

The highly publicized sale in 1993 by McDonnell Douglas (now Boeing) of F/A-18s resulted in \$3 billion in offset obligations.<sup>18</sup> By reviewing income and employment data for several of

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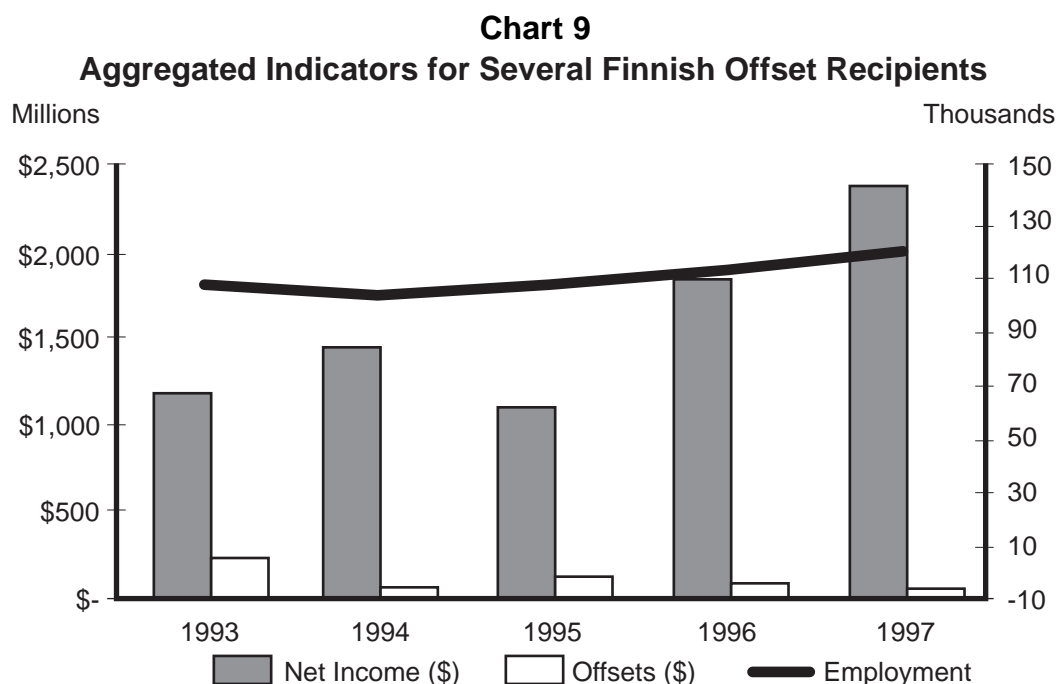
<sup>16</sup>*Ibid.*

<sup>17</sup>*Countertrade & Offset*, Vol. XVII, No. 12; June 26, 2000. CTO Data Services Co.

<sup>18</sup>The International Association of Machinists and Aerospace Workers, 1997. <http://www.iamaw.org/news/journal/spring97/defensefirms.html>.

the largest Finnish companies that also received offsets, it is likely that offsets probably aided these companies' growth (**Chart 9**).<sup>19</sup>

To assess the impact of offsets on Finnish offset recipient companies, it was necessary to define a small group of firms receiving a relatively large portion of the total offset amount. Then, a list of Finland's 500 largest companies was compared against the list of Finnish offset recipients; those industrial participation recipients that appeared among the top 150 private companies were selected for further examination.<sup>20</sup> A narrower group was selected based on percentage of offset agreements received, ranking in the Finnish industry, and the type of offset received.



Source: U.S. DOC/BXA Offset Database

The Finnish recipients studied seem to have benefited from the offsets. After a large surge in offsets in 1993, the aggregated net income of the companies gradually increased, ending 10 percent higher in 1998 than in 1993. As the benefits of offsets are not immediate, it is to be expected that the net incomes rose significantly only in 1996 and 1997. Of course, offsets are not the only reason for an increase in net income, but are undoubtedly a factor. With these rises in net income, employment also increased by 13 percent; these numbers may have also increased due to an upswing in the overall European economy.

The companies studied represented 30 percent of all offsets received by Finnish companies from U.S. defense primes from 1993 to 1998. Exactly half of these offsets were direct and half were indirect, although the direct offsets were much fewer and larger in value. The majority of

<sup>19</sup>1999 employment data: <http://www.wow.fi/WOW/?path=500biggest/detail&com>, 1993-1998 employment data: <http://www.nan.shh.fi/NAN/Corp>; net income from company websites.

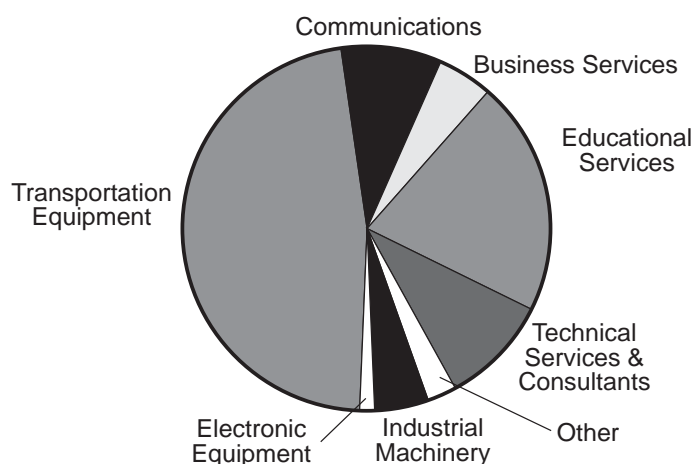
<sup>20</sup>Taouselämä, <http://www.wow.fi/WOW/?path=500biggest>; based on financial statements and Finnish accounting standards.

the offsets were purchases, representing 37 percent of the offsets to these companies, as shown in **Chart 10**. Purchases essentially aid recipient companies by creating demand for their products. Moreover, due to these aforementioned purchases, a company's need for employment will usually increase as well. As shown in **Chart 9**, the offsets to these companies in 1993 alone represented almost 20 percent of their combined total net income.

As stated in the Finnish Rules of Industrial Participation, Finland's requirement for offsets is founded on a desire to support small- and medium-sized businesses as they are entering the global marketplace, to increase employment, and to maintain or improve the overall health of the economy. See **Chart 10** for offsets by industry received by Finnish companies. In light of this notion, it is understandable that a chemical company struggling with plummeting net income figures received its offset portion in purchases of industrial chemicals, the company's main product. A large company producing communications equipment received offset benefits through purchases of its electronics and communications equipment; this satisfies the Finnish requirement for receiving offset credit because it is "benefiting high-level engineering industry, electronics industry, or other advanced industries in Finland."<sup>21</sup> In this particular case, a significant increase in the number of employees resulted in an even more staggering growth in net income. Whereas employment merely doubled, net income quadrupled. Arguably, there are many other factors contributing to a company's rapid growth; however, the trends show that these companies have increased employment and net income recently after receiving these offsets.

In addition to receiving offset benefits through purchases made by U.S. companies, many Finnish offset recipients also benefited from technology transfers. Transferring and introducing know-how and new technology to Finnish companies may not only have impacted a specific industry sector or company, but it is likely that it also may have strengthened the trend of growing investment in commercial research and development, an economic indicator signaling high level of innovation. As Finland is already a leader in investment in commercial research and development, offsets in this area are certainly not necessary for national security purposes.

**Chart 10**  
**Offsets by Industry for Finnish Companies Studied**



Source: U.S. DOC/BXA Offset Database

### 3.22 Israel: Foreign Military Financing and Offsets

The Industrial Cooperation Authority (ICA), a division of the Ministry of Industry and Trade, administers the Israeli offset policy, called industrial cooperation. The ICA monitors all industrial cooperation agreements made between government agencies and foreign firms. The Israeli government seeks long-term relationships between Israeli and foreign firms that will help Israeli companies find new access to global markets. The government places importance on subcontracting, technology transfer, investment, and market growth.

<sup>21</sup>Finnish Ministry of Defense, *Draft Agreement on Industrial Participation, Rules of Industrial Participation*.



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Israel requires offsets from foreign companies on government procurements over \$50,000, for both defense and commercial goods. This minimum value is quite low compared to other countries (world average minimum defense contract requiring offsets is approximately \$15 million). While Israeli industrial cooperation agreements only require offsets equal to 35 percent of the procurement value, the offset is often much greater.

Between 1993 and 1998, U.S. defense companies entered into 23 new offset agreements with the Israeli government. These agreements had a total export value of \$945 million with a total offset value of \$468 million. These new agreements actually mandate offsets of 50 percent, higher than the 35 percent stated by the ICA. Over the same six-year period, U.S. defense companies partially fulfilled these and previous obligations with offset transactions totaling \$1.1 billion. Approximately \$588 million of these transactions were related directly to the sales items. These direct offsets included subcontractor production and technology transfers, allowing Israeli workers to manufacture components for the defense items the country was purchasing. The remaining transactions were required investments, which facilitated economic growth in Israel, increasing the competitiveness of Israeli companies.

Each year, the U.S. federal budget appropriates military aid in the form of foreign military financing (FMF) to Israel. In 1999, the U.S. government appropriated \$1.86 billion, requiring all but \$400 million be spent on U.S. military goods (78.5 percent of the funds must be spent on procurements from the United States). The FMF funds are given to Israel, who then pays U.S. prime contractors for goods.

Despite the fact that Israel receives funding to purchase the defense items from the United States (Egypt has a similar arrangement), Israel also requires offsets on its large defense procurements. U.S. prime contractors use offset packages to compete against each other to win these contracts. The offsets often take the form of direct investments into Israel or coproduction of the purchased defense item. With these offsets, Israel is purchasing a defense system that will be partly produced in Israel. Recently, the U.S. government agreed to allow Israel to waive provisions of the *U.S. Arms Export Control Act* that would have limited the amount of U.S. aid money that Israel could spend locally.<sup>22</sup>

Israeli companies often become competitors to U.S. companies, in many cases with the technology gained through partnerships and offsets. A U.S. company can form a joint venture with an Israeli company to co-develop new technology. This gives the U.S. defense prime contractor offset credits as well as an opportunity for earning profits. The partnerships may prove profitable for a U.S. contractor, but Israeli suppliers often displace former U.S. suppliers. Oftentimes, U.S. companies also bring technology to a partnership and also receive offset credit for the technology transfer.

### **3.3 Sophistication and Complexity**

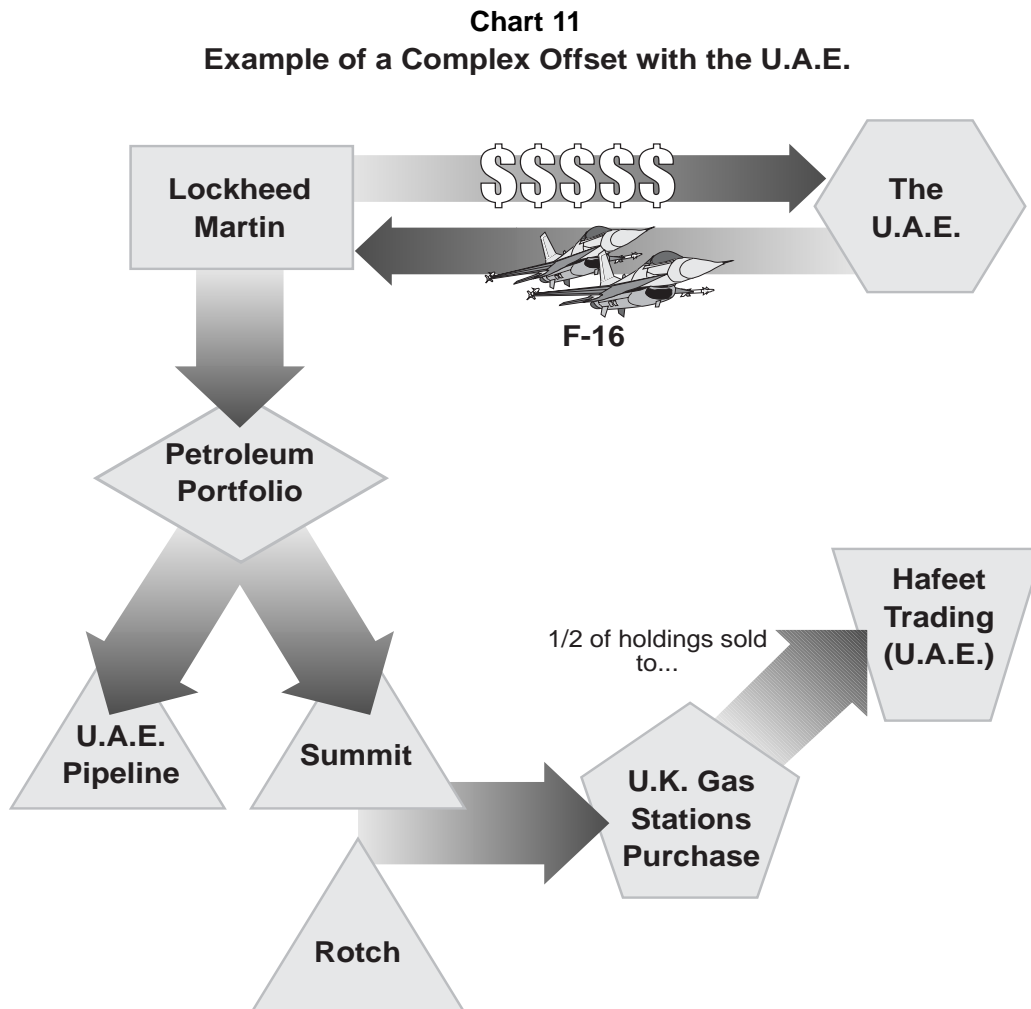
More and more countries are formalizing offset policies. For example, the Czech Republic, Brazil and Poland have recently implemented or revised offset regulations. Offset policies constantly change and become stricter as foreign governments redefine their defense and development needs. In order to adjust to this moving target, defense firms are becoming more creative in finding new means to fulfill offset obligations. In particular, firms are using a small but growing number of banking schemes, IPOs, business connections, and capital infusions into promising new companies, with some positive results. Firms apply these practices while focusing on a country's defense and development goals to offer the most enticing offset.

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<sup>22</sup>“U.S. Agrees to Allow Israel to Spend More Aid at Home.” *Defense News*, Vol. 15 No. 24, June 19, 2000.

These new methods are increasing the complexities of offset transactions. For example, this year, Lockheed Martin signed an \$8 billion contract to sell 80 F-16s to the U.A.E.. Part of the offset obligation is expected to be fulfilled through investing \$160 million in a petroleum- related portfolio, which includes a natural gas pipeline through the U.A.E., as well as a United Kingdom start-up called Summit Corporate Services Ltd. Summit is trying to help the U.A.E. buy into oil tankers and European gasoline stations.<sup>23</sup> Summit, founded by an American, is partnering with another United Kingdom company, Rotch Property Group Ltd., to purchase gas stations in the United Kingdom. After the purchase, the partners plan to sell half of their holdings to a U.A.E. company, Hafeet Trading. This chain of financial dealings fulfills part of Lockheed's future offset obligations. **Chart 11** shows the complexity of this offset arrangement.<sup>24</sup>

The shift from traditional offset activity is difficult to capture in the data submitted by prime defense contractors for this report. The information presented here is largely anecdotal and taken from the media, company press releases, conferences, and discussions with industry.



Source: U.S. DOC/BXA Offset Database

<sup>23</sup>Pearl, Daniel, "Arms Dealers Get Creative With Offsets." *The Wall Street Journal*, 20 April 2000.

<sup>24</sup>*Ibid.*

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## 4.0 Presidential Commission

### 4.1 Background and Structure

In July 1999, Senator Feingold introduced a bill entitled the *Defense Offsets Disclosure Act of 1999* which called for increased monitoring of the use of offsets in international defense trade.<sup>25</sup> This bill was incorporated into an appropriations bill that became law in November 1999. The legislation created the National Commission on the Use of Offsets in Defense Trade, and a parallel President's Council on Offsets in Commercial Trade was created by executive order. The purpose of the commission and parallel council is to study offsets, focusing in particular on their effect on the aerospace industry and its suppliers, as well as other high-technology industries, and to analyze their impact on national security.

The commission and council share the same members and are made up of six representatives from the private sector and five from the federal government. The private sector membership includes:

- R. Thomas Buffenbarger, International President of the International Association of Machinists and Aerospace Workers;
- Philip M. Condit, Chairman and Chief Executive Officer of the Boeing Company;
- Vance D. Coffman, Chairman of the Board and Chief Executive Officer of Lockheed Martin Corporation;
- Pierre Chao, Managing Director and Senior Aerospace/Defense Analyst, Credit Suisse First Boston Corporation;
- David C. Mowery, Professor of Business at the University of California at Berkeley;
- Ann R. Markusen, Professor of Planning and Public Affairs at the University of Minnesota.

The federal government representatives include five members from the executive branch, including one each from the Office of Management and Budget, the Department of Commerce, the Department of Defense, the Department of State, and the Department of Labor. In most cases, the secretary of the department has been appointed.

The commission and council have until the end of the year to report to Congress and the President on future U.S. policies regarding military and commercial offsets. As stated in the original legislation, the report is expected to include a strategy for unilateral, bilateral or multilateral negotiations toward a treaty on offset standards, with a goal of reducing any detrimental effects of offsets to the nation's economy.

### 4.2 Actions to Date

The commission and council held their first public meeting on December 4, 2000. The purpose of the meeting was to allow the commissioners to hear from expert witnesses about the impact of offsets on the nation's economy. The witnesses represented a wide range of views on offsets, from labor, academia, and private industry. The commission and council published an

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<sup>25</sup>*Defense Offsets Disclosure Act of 1999* (P.L. 106-113, Div B, S1000(a)(7) [Div.B, Title XII, Subtitle D (SS 1241 to 1247)], Nov. 29, 1999, 113 Stat. 15.

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interim report in January 2001. The next meeting is planned for the summer of 2001, when the newly appointed administration officials will meet for the first time.

For more information about the activities of the Commission and Council, please see their website at <http://www.offsets.brtrc.net/>.

## Appendix E of the Offsets Report

Country	Title Of Offset Policy	Agency Handling	Offset Part Of Procurement Decision	Offset Sector	Minimum Value Of Contract Requiring Offsets	Minimum Offset Requirement (%)	Term	Multipliers	Penalties	Focus	Direct vs Indirect	Eligible Offset Activities
Australia	Australian Industry Involvement (AII) (Not Termed "Offset", But SIDA's)	(DoD) Defense Acquisition Organization	No	Civilian & Military	A\$2.5M Foreign Content/Any Tender Of A\$5M	Maximized Where Cost Effective	Not Defined	None In Policy	During Project, Strict Review Of SIDA's. If Not Completed, Not Credited. Must Fulfill Obligation	Local Content (Australia & New Zealand), (SIDA)	Both	Local production, R&D, Tech Transfer, Training, Export Sales, Infrastructure, Collaborative Ventures
Belgium	Industrial Benefit In The Field Of Defense Procurement (Economic Compensations)	Ministry of Economics	Yes	Civilian & Military	Not Specified	100%	Not Defined	None In Policy	Penalty For Non-Executed Obligation	High Technology	Both	Coproduction, Direct Supplies & Services, Tech Transfer, R&D
Canada	Industrial & Regional Benefits (Will Not Use Term "Offset")	Industry Canada	Yes	Civilian & Military	C\$2M - Preferred C\$100M - Required	100%	Not Defined	None In Policy	Performance Guarantee Utilized	Economy, Job Creation, Technology, Politics	Both	Well defined
Denmark	Industrial Cooperation Agreement (ICA)	Ministry of Economics	Yes	Civilian & Military	25 Million DKK (Approximately 3.8 Billion U.S.\$)	100%	Not Defined	None In Policy	Performance Guarantee Utilized	Defense & Technology Similar To Product Purchased	Both	Technology Transfers, Defense, Aerospace Industries, etc.
Egypt	No Official Policy	Not Specified	Ad Hoc Basis	Military	Not Specified	Low	Not Defined	None In Policy	Not Defined	Defense Industry Development & Support	Direct	Direct Technology Transfer
Finland	Industrial Participation	Trade Ministry (& Finnish Committee on IP)	Yes	Civilian & Military	Largest Defence Material Purchases	100% + Marketing Consulting	Not Defined	1-3 Times If Finnish Products Are Exported	Penalty: Exclusion From Future Bids Until Contract Fulfilled	Participation Of Domestic Defense Industry, Technology, Export Internationalization Of Exports	Both	Transactions That Benefit Economy & Industries, Technology Transfer
Germany	Industrial Balance, No Official Policy	The Federal Office For Defense Technology & Procurement	Yes	N/A	N/A	Aim is 100%	N/A	N/A	N/A	German Company Participation From The Inception Of A Project, Balance Globalization With Growth Of Local Cost	Both	If Just Procurement Contract, Co-production Required

## Appendix E (Continued)

Country	Title Of Offset Policy	Agency Handling	Offset Part Of Procurement Decision	Offset Sector	Minimum Value Of Contract Requiring Offsets	Minimum Offset Requirement (%)	Term	Multipliers	Penalties	Focus	Direct vs Indirect	Eligible Offset Activities
Greece	Policy of Offset Benefits (O/B)	Hellenic Ministry of National Defense/General Armaments Directorate (GAD)	Yes	Military	250 Million Drachmas	80-120%	Not defined	Very Complex, Depends on Value, Offset & Recipient Maximum is 12	10%	Defense Industry & Coproduction	Direct	Require: (Coproduction) Local Content, Joint Ventures, Technology Transfers
Israel	Industrial Cooperation Agreement (ICA)	Industrial Cooperation authority (ICA), Ministry of Trade and Industry	No	Civilian & Military	U.S. \$100,000	35%	Usually 3 years, may be extended to 10 years	1-2 Times, dependent upon type of offset	No Liquidated damages clause	Development of close, long-term working relationships	No distinction	Subcontracts, R&D work, Tech Transfer, Investment, Global Market Access & Exposure
South Korea	Policy Of Offset Benefits (O/B)	Ministry Of National Defense	Yes	Military	\$10M	30%	Not Defined	0-6 Times Based On Type Of Offset	Debarment From Participating For Non-adherence To Offset Obligation	High Technology, Must Be More Than 30% Of Contract	No Distinction	Mainly Technology Transfers, Also Employment, Equipment, Purchases & Other
Kuwait	Offset Program	Ministry Of Finance, Program Executive Office PEO	Yes	Civilian & Military	KD 1 Million, Sum Of Contracts In 1 Year	30%	8 Years With Intermediary Steps Of Completion	2-10 Times Based On Activity & Sectors	6% Of Total Contract	Technology Transfer & Training	No Distinction	Expenses Of Joint Ventures With Local Parties
Netherlands	Industrial Participation & Offset	Ministry of Economics	No	Military	5 Million Guilders	100%	10 Years	1-3 Times If Finish Products Are Exported	5% of Late Portion, Must Still Fulfill Obligation	Technology Similar To Product Purchased	Mix with Original Focus On Direct	Counter-Purchase, Coproduction, Licensed Production
New Zealand	Defence Offsets Policy/Industrial Involvement	Minister Of Defence & Ministry Of Commerce	No	Military	NZ \$5 Million	30%	Not Defined	1-3 Times	Liquidated Damages	Stimulate Growth & Employment, Sustainable Activities	No Distinction	R&D, Technology Transfer, Joint Ventures, Training, Export Marketing, Etc.
Norway	Industrial Policy, Offset Program	Royal Norwegian Ministry Of Defence	Yes	Civilian & Military	NOK 50 Million	100% Contract Value	Not Defined	N/A	Performance Guarantee Utilized	Technology Similar To Product Purchased	No Distinction	Well Defined

## Appendix E (Continued)

Country	Title Of Offset Policy	Agency Handling	Offset Part Of Procurement Decision	Offset Sector	Minimum Value Of Contract Requiring Offsets	Minimum Offset Requirement (%)	Term	Multipliers	Penalties	Focus	Direct vs Indirect	Eligible Offset Activities
Philippines	Countertrade (Implementing Rules & Regulations)	Department of Trade & Industry Through the Philippine International Trading Corporation	Yes	Civilian & Military	U.S. \$1 Million	50%	3 Years After From Execution Of The Contract (2 Years Grace Period)	2-5 Subject To The Value Of The Desired Activities	Non Performance Ranging From 5% To 100%	Foreign Capital Equipment, Machinery & Services	Indirect	Co-production, Countertrade, Or Barter
Saudi Arabia	Offset Program	Economic Offset Committee (Ministry of Defense & Aviation)	Yes	Civilian & Military	Not Specified	35%	Within 10 Years	Subject To Approval Of Offset Authority	Best Efforts But Reconsidering Policy	Job, Training, Technology Transfer, Investment	Mix with Original Focus On Direct	Investments In Joint Ventures With Local Parties
South Africa	National Industrial Participation (IP)	Department of Trade & Industry	Yes	Civilian & Military	Import Content Greater Than U.S. \$10 Million	100%	7 Years	1-2 Subject To Type Of IP	5% (on Unfulfilled) Performance Guarantee	Develop Industry, Technology Transfer, Job Creation	No Distinction	Foreign Investment, Exports, R&D, Technology Transfer
Spain	Industrial Cooperation	Ministry of Defense (Industrial Cooperation Directorate/Mgmt Office)	Yes	Military	N/A	100% Expected Contract Value	Not Defined	None In Policy	None In Policy	Technology Similar To Product Purchased Economy, Domestic Industry	Both	Evaluated On Case By Case Basis, Prefer Partnerships With Domestic Firms
Sweden	Offset & Participation Program	DoD Defense Material Administration (FMV)	Yes	Civilian & Military	100 MSEK	N/A	Not Defines	Non In Policy	Performance Guarantee Utilized	Strengthen Domestic Defense Industry	Both	Co-Production, Technology Transfer, Etc.
Switzerland	Defense Procurement & Offset Policy	DoD	Yes	Civilian & Military	50 Million Swiss Francs	100%	Not Defined	None In Policy	Performance Guarantee Utilized	Retain Domestic Industry Independence, Overcome Trade Barriers	Both	Co-Production, Cooperation With Universities, Export Assistance
Taiwan	Industrial Cooperation Program (ICP)	Ministry of Economic Affairs & Industrial Development Bureau (IDB), Committee For Aviation & Space Industrial Development	Yes	Civilian & Military	%50 Million	30-40%	N/A	1-10 Times, Based On Type of Offset	N/A	Upgrade Industrial Technology, Increase Quality Of Workforce, Globalization	Both	Local Procurement, Technology Transfer, Training, Research & Development, Marketing

## Appendix E (Continued)

Country	Title Of Offset Policy	Agency Handling	Offset Part Of Procurement Decision	Offset Sector	Minimum Value Of Contract Requiring Offsets	Minimum Offset Requirement (%)	Term	Multipliers	Penalties	Focus	Direct vs Indirect	Eligible Offset Activities
Thailand	Countertrade Policy	Department Of Foreign Trade, Ministry Of Commerce	Yes	Civilian & Military	\$300 Million Bath	20-50%	2 Months Prior To End Of Contract	None In Policy	5% (On Unfulfilled Performance Guarantee	Enhance Trade, Prevent Imbalance Of Trade	Indirect	Counter-Purchase
Turkey	Military Offset Policy & Guidelines	Under-secretariat For Defense Industries (SSM)	Yes	Military	U.S. \$5 Million	30% Of Contract, 50% Of Project Import Value, Will Change To 100%	Not Defined	1-5 Times, Based On Type Of Offset	10% (On Unfulfilled) & Temporary Exclusion From Future Bids	Self-sufficiency, New Business Opportunities, Increase Foreign Currency Inflow, Improve Quality	Both	Exports, Technology Transfer, R&D, Training, Investments, Etc.
United Arab Republic	The Defense & Procurement Policy Of The UAE	United Arab Republic Offsets Group	Yes	Military	U.S. \$10 Million	60%	7 Years	Yes But Unpublished	8.5% Of Offset Obligation Or 4.5% Of Total Contract	Sustainable Wealth Creation	No Distinction	Profits Of Joint Ventures With Local Parties
United Kingdom	Industrial Participation	MOD/DESO	No	Military	L10M (\$16.10M)	100%	Over Period Of Procurement Contract	N/A	None, However Strict Enforcement Of IP Program	Provide New Business Opportunities/ Technologies & Maintain A Credible Defense Industry	No Distinction	Defense Related Or Civilian High Technologies Through Defense Manufacturer & Be "New Work"

Countries that currently do not have a defense related offset policy: Argentina, Cameroon, Croatia (ad hoc), Hungary (policy not defined but offsets are practiced), Malaysia, Bangladesh, India (currently forming a policy), Italy Jordan, Kenya, Pakistan, Peru, Thailand.



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# ***PERSPECTIVES***

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## **Strength Through Cooperation Security Cooperation Conference 2001**

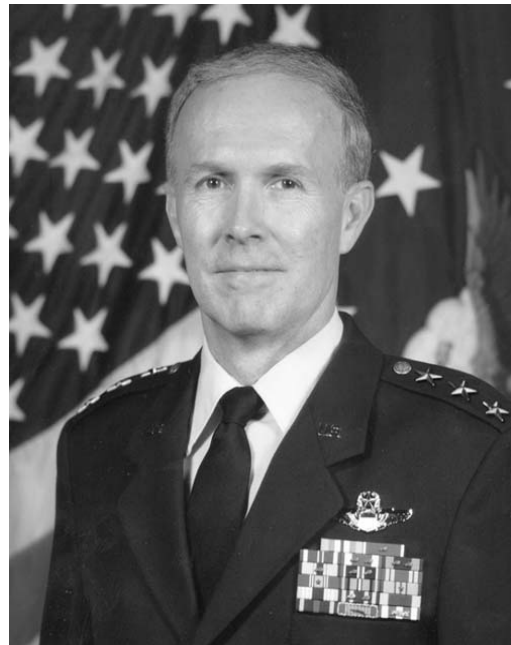
**By**

**Lieutenant Dana J. Clay, USN  
Defense Institute of Security Assistance Management**

In the winter issue of the *DISAM Journal*, we hope to provide additional articles on the status of the many initiatives announced during this conference. The following is a summary of events from the Security Cooperation Conference.

Lieutenant General Tome H. Walters, Jr., USAF, Director of the Defense Security Cooperation Agency (DSCA), opened the annual Security Cooperation conference to an audience of over 400 people representing the United States government, U.S. industry, and international customers. He offered that September 11, 2001 was the end of the Post-Cold War Era, and that there had been thought of canceling the conference in the wake of the terrorist attacks. The decision had been made to go on with the conference as a statement as to what is possible when nations join together to confront a common challenge.

The Congressional key speaker, Representative Henry J. Hyde, Republican from Illinois, followed Lt. Gen. Walters. Representative Hyde is the chairman of the House Committee on International Relations. He emphasized that while we need to deal with the current crisis, we must develop a long-term foreign policy strategy. Representative Hyde's comments are included on page 113 of this *Journal*; they are also available on the DSCA web page [www.dsca.osd.mil](http://www.dsca.osd.mil).



Dr. Vance D. Coffman, Chairman and CEO of Lockheed Martin was the industry key speaker. He discussed the streamlining of the foreign military sales (FMS) and export processes. He also described how the defense industry had adapted to the Post-Cold War Era by streamlining themselves to remain competitive. He also emphasized the importance of Trans-Atlantic defense market integration. Look for Coffman's remarks in the winter issue of the *DISAM Journal*. They are also available on the DSCA web site.

The third key speaker of the day was the Honorable Lincoln P. Bloomfield, Jr., Assistant Secretary of State, Bureau of Political-Military Affairs. Secretary Bloomfield spoke about the role of the Bureau of Political-Military Affairs (State/PM).

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The key speaker for the Department of Defense was Peter Flory, the Principal Deputy Assistant Secretary of Defense (International Security Affairs). He discussed the benefits of our past security cooperation programs.

A presentation by the Netherlands defense cooperation attaché, Dirk Habig, praised the reinvention efforts of the last year, but also stated that there was more work to be done, especially in implementation of the latest initiatives.

The last session of the day consisted of a panel discussion. The panel included Lieutenant General Tome H. Walters, Director of DSCA; Rear Admiral Larry Newsome, Director of Navy International Programs Office; Mr. Willard Mitchell, Deputy Under Secretary of the Air Force, International Affairs; and Mr. Craig Hunter, Assistant Deputy Under Secretary of the Army, International Affairs (Security Cooperation).

Lieutenant General Walters opened the panel discussion with the remark that the first day of the conference was an overview of security cooperation and that the second day would be a closer look at the reinvention initiatives the integrated process teams (IPTs) had developed. He also commented on the wide range of perspectives given by each of the day's speakers. Also, Lt. Gen. Walters announced the formation of a response cell in support of Operation Enduring Freedom with Jeannie Farmer (DSCA/ERASA) as the focal point for coalition partners' fast track needs. He requested that each service establish a parallel response cell to track requirements on a daily basis. Rear Admiral Newsome provided a slide presentation on the different initiatives the Navy has been working on internally, including hybrid cases and electronic letter of offer and acceptance (LOA) processing. Mitchell discussed the need for case managers to have plans in place for accelerated deliveries in support of our allies and coalition partners. He also added that we must not get sidetracked from the reinvention efforts. With regards to the Air Force, he mentioned activity-based costing and strategy-driven security cooperation. Hunter reiterated the three main points that speakers had made throughout the day: the need for a long term strategy, Trans-Atlantic alliances/cooperation, and technology transfer. The panel was then opened to questions from the conference attendees.

Lieutenant General Walters closed the conference for the day by thanking the speakers for presenting the different perspectives on security cooperation. He also reminded the attendees that reinvention initiatives would be discussed the following day.

Lieutenant General Walters opened the second day of the conference with a short explanation of who has responsibility for technology transfer. Then, Lieutenant General Walters announced that this day would be the last day for the term "reinvention." He explained that he took the twenty-one IPTs that were present at the beginning of his tenure and reduced them to four. This was the day where the ten initiatives the IPTs had been responsible for would be unveiled. Lieutenant General Walters stressed that these were not the end of the process, but rather a beginning to build upon.

Fred Beauchamp, Chief of Strategic Planning and Reinvention at DSCA, introduced the ten initiatives. He explained that the IPTs included members from all aspects of the FMS business: customers, industry and U.S. government. The ten initiatives were unveiled.

- **Team International** - A team consisting of the international customer, military department members, and U.S. industry will form at the beginning of the sales process in order to determine requirements. This will be especially critical for the introduction of a system, multiple services' involvement in a platform, and for non-standard platforms.

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- **Standby Letter of Credit** - Use a standard commercial banking process in lieu of collection of termination liability.
  - **Payment Schedule Reform** - Reviewed and revised current methodology. Rewrote policy.
  - **Customer Participation in Contract Process** - Encourage customer participation in discussions unique to the customer, but safeguard proprietary information of the defense contractor.
  - **Customer Satisfaction Index** - Computer generated survey to be used to encourage feedback and allow for the focusing on most significant concerns. To be administered yearly and at various stages in the LOA process.
  - **Electronic LOA Coordination** - Currently have electronic countersignature. Eventually to pass the entire letter of request (LOR) to LOA process electronically. Will utilize the Defense Security Assistance Management System (DSAMS) and e-mail to accomplish this. (See the article "Electronic Case Coordination and Tracking - Team Effort" beginning on page 126 in this *Journal*.)
  - **Web-based Security Assistance Customer Handbook** - Currently in draft for use as a basic tutorial and refresher. Provides a condensed description of the FMS process and provides links to documents like the *Security Assistance Management Manual* (SAMM).
  - **Guide on How to Write a Letter of Request Guide** - Located on CD-ROM and on the worldwide web on the DSCA website. Goal is to reduce time spent writing the LOA by getting detailed information from the customer in the initial request.
  - **Improvement of Case Closure and Case Reconciliation Processes** - Convincing all implementing agencies to adopt the same procedures for Accelerated Case Closure Program (ACCP). Recruiting more customers for the ACCP. Setting up ACCP case reviews at the implementing agencies.
  - **Work Force Initiatives** - Recognized that international affairs career personnel need more career development. Developed ideas for a certification program, internship program, and advanced degree program.

For the next one and one half-hours, conference attendees attended break out sessions that provided more detailed information about the initiatives. Everyone attended the initial session regarding business process initiatives. Then, people had the opportunity to sit through two of the three remaining IPT presentations (partnering initiatives, training and career development initiatives, and finance initiatives).

The final session was an update of the Case Execution Management Information System (CEMIS) project by Freda Lodge, Requirements Officer, DSCA. She explained that the goal was to take four existing legacy systems and consolidate them into one to provide improved support, quality, and timeliness. The legacy systems to be consolidated are the Army's Centralized Integrated System for International Logistics, the Navy's Management Information System for International Logistics, and the Air Force's Security Assistance Management Information System and Case Management Control System. CEMIS will also allow for standardization, integration, and for continuous business process reengineering. Lodge also assured the attendees that the process was being done in accordance with the Department of Defense acquisition process. The first step was a deficiency analysis of existing systems and was completed in March 2001. The

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mission needs statement was completed in May 2001. The operational requirements document is due to be completed in December 2001.

Lieutenant General Walters concluded “Security Cooperation 2001, Strength Through Cooperation”, by stating that he was personally satisfied by the accomplishments of the IPTs, but there was still work to be done. He closed out the partnering initiatives and training and career development IPTs. From the partnering IPT, the initiatives will go to the services for ownership, implementation, and execution. As for the training and career development IPT initiatives, they will become a joint effort by DSCA and the services. The finance IPT is to remain, but it will be broken into specialized teams to discuss cooperative logistic supply support arrangements (CLSSAs), surcharges, and the military articles and services list (MASL). Included with the MASL team, will be a scrub and review of the current MASL structure. The finance IPT will also review the policies they have already developed. From the business process IPT, the customer satisfaction index will be handed over to the services for implementation and adaptation. The business process IPT will now look at the FMS best practices suggested by the services.

Lieutenant General Walters also mentioned the move towards developing activity-based costing and performance-based budgeting. DSCA is also preparing security cooperation defense guidance that will be completed by January 1, 2002. It will be used to make budget submissions for the next fiscal year, and marry the budgeting process to a long-term corporate strategy.

The Director also stated that he expects FMS sales for fiscal year 2001 to reach thirteen billion dollars. The figure currently was at 12.8 billion dollars. He also announced that once he had the statistics as to how much time is saved by using electronic countersignature, he will reduce the current metric for development of LOAs (120 days for 80 percent of cases) to around 110 days for 80 percent of cases. This will not cause hardship for the implementing agencies as this time will come from the DSCA countersignature process. (See article “Electronic Case Coordination and Tracking - Team Effort,” beginning on page 126 of this *Journal*.) He expects this to take affect within the next few months.

The conference ended with attendees feeling accomplishments had been made with regards to making the FMS process better. They also knew that much work lies ahead. Look for excerpts of all the key speakers in the upcoming issue of the *DISAM Journal*.

### **About the Author**

Lieutenant Dana J. Clay is a U.S. Navy surface warfare officer and has been assigned to Defense Institute of Security Assistance Management since 2000. In addition to being an instructor, she is also the Americas regional studies back-up director and the anti-terrorism/force protection functional coordinator. She holds a Bachelor of Science degree from the U.S. Merchant Marine Academy.

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# Security Cooperation 2001 Conference

By

**Congressman Henry J. Hyde**  
**Chairman of the House Committee on International Relations**

[The following are excerpts of the remarks of the Honorable Henry J. Hyde presented to the Security Cooperation 2001 Conference, September 26, 2001.]



With the September 11, 2001 attack on the United States, we have once again been awakened to the reality that the U.S. has mortal enemies. The enemy does not desire compromise; they are not interested in negotiation. The U.S. suffering does not give them human pause; indeed, they celebrate it. They do not seek the U.S. mere defeat. They are intent on the U.S. destruction.

The United States' most immediate task is to hunt down and destroy those who participated in these cold-blooded assaults. However, because the U.S. purpose is not merely to extract revenge but to ensure its security, the U.S. cannot stop there. Instead, the U.S. goal must be to strike at and eliminate all those engaged in planning future horrors. The U.S. must accept that the U.S. has many implacable enemies in this world, and the U.S. must not shrink from doing what it needs to do disable or destroy them. I hope that the U.S. has taken that lesson to heart.

Without question, the U.S. was unprepared for what took place, despite the many warnings that now seem obvious in retrospect. The U.S. efforts must now concentrate on ensuring that it is fully prepared for whatever assaults may yet come. But in examining the reasons for the U.S. unpreparedness, one which seems particularly prominent to me is the false sense of security that has arisen from the U.S. enormous political, military, and economic strength. That great strength gave many the fatal illusion that the U.S. was invulnerable, that its enemies were vanquished, that it faced no real challengers, and that the U.S. was free to act or react as the we saw fit. The End of History, some termed it. But the U.S. unwillingness to deal with the world as it is, rather than as the U.S. hoped it might be, has greatly encouraged those who seek to do us harm. I fear the U.S. may have forgotten the great lesson of the past century: that the price for tolerating aggression is paid in blood and destruction.

The implications of this attack are so extensive that they will occupy the attention of the U.S. government and society for years to come. But in addressing the newly prominent threat posed by terrorism, the U.S. must not make the mistake of forgetting that the United States has many other interests around the world and that it faces many other threats. The U.S. may encounter many more unpleasant surprises unless we begin to prepare for them now.

Even as the U.S. reacts to this crisis, the larger question before us is how will we use the enormous power the U.S. currently possess to secure the future for our country and the generations to come. The wealth of opportunities the U.S. currently possess are not permanent; its choices may in fact become increasingly narrow as the world evolves. The U.S. may have once believed that it would always be above the fray, untouched and untouchable by the forces of destruction at work in this world. But that has now been demonstrated to be a dangerous illusion.

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Once again, the United States agenda has been set for us instead of by us. Once again, the U.S. is responding to the world instead of shaping it.

The principal problem, the one which the U.S. must begin to address in a more disciplined manner, is that the U.S. has no long-term strategy, no practical plan for shaping the future and thereby no plan for advancing and defending our interests, a task that must include identifying and disabling our potential opponents before they can do us harm.

Nearly a decade has passed since the collapse of the Soviet Union, and without question the world is a vastly better place because of it. But as that empire fell, it took with it what had been the central organizing principle of our foreign policy for the last half-century. Now I have read and heard many learned discourses and debates on what the new U.S. agenda should be, but I confess that I have yet to see a compelling path identified, much less mapped out, regarding how the U.S. should proceed, how the U.S. should use the power it currently possess to bring into being the world that the U.S. might want.

Instead of a firm course, I see drift. Instead of shaping the evolution of events in pursuit of long-term objectives, the U.S. has been busy responding to problems as they arise, guided by an agenda that has been thrust upon the U.S. by circumstances rather than one the U.S. has itself constructed.

That is not to say that many splendid things have not been accomplished in the past decade—the dismantling of the Soviet empire and the liberation of the eastern half of Europe; the expansion of North Atlantic Treaty Organization (NATO); the passage of the *North American Free Trade Agreement*; the continued spread of democracy; the resolute defense of our allies and the containment of our enemies around the world.

But these and other successes cannot substitute for a long-term vision. Not only does the U.S. risk leaving the future to chance, the U.S. risk losing fundamental things it has grown accustomed to taking for granted. Let me illustrate my point with couple of examples.

I believe the U.S. is watching the beginnings of an unraveling of the Atlantic relationship. By the Atlantic relationship, I mean something more than just NATO. I mean the entire complex of connections between North America and Europe, the close identity of interests, that we and our allies have constructed out of the ashes of World War II. This relationship is the very foundation of the post-war international system, the irreplaceable center on which the stability of the globe depends. It is from this core that the democratic and economic revolution now transforming the world has spread.

That relationship is fraying. Slowly, quietly, it is being hollowed out, even as the responsible officials solemnly reaffirm their commitment.

Closer to home, there is Mexico. Our two countries have kept each other at arms length for virtually our entire histories, and both countries are the poorer for it. But we cannot escape the fate that geography has decreed for us; there is no other country on the planet which has the potential to affect us so broadly, so immediately. Whether or not our respective governments choose to cooperate, our societies have already begun to interweave themselves, and we are in the process of transforming one another. Mexico is currently undergoing the most hopeful revolution in its long history, the success or failure of which will have a profound impact on the United States. They cannot be allowed to fail.

Now, the President is to be congratulated for his understanding and recognition of Mexico's importance, signified by his use of the term "a special relationship" to characterize our ties, a

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designation hitherto reserved only for our closest allies. But when I look more closely at how we actually intend to assist Mexico's entry into the ranks of the developed world, I have trouble identifying any guiding strategy on the United States part.

As for Asia, that giant continent veers between great hope and great chaos. China's rise to a world status commensurate with the immense resources of its people is a certainty. That rise, and the aspirations which must accompany it, cannot but impact the system the U.S. and our allies have brought forth and maintained in East Asia since World War II. The U.S. hope is that democracy will, in time, tame this potential challenge, but there is no guarantee that the U.S. will win that race, and the U.S. may be faced with difficult decisions much more quickly than our planners have assumed. In Asia, one can point to many areas of progress, and many areas of concern, and I have no doubt that the U.S. attention will be sorely taxed by the current and future problems that region will unfailingly produce. But again I ask: what is the U.S. long-term strategy toward this region? How does the U.S. goals there fit into its global objectives?

A similar inquiry can be constructed for every region: the Middle East, South Asia, Latin America, and Africa. And there are a long list of other concerns: terrorism, the many assaults on human rights, the stability of the international financial system, and on and on, as many as one would care to list. There are far more than enough to overwhelm our attention and to keep the U.S. and its successors busy indefinitely. So I say again: what concerns me most is that, in the crush of the present, there is little or no evidence of the development of a long-term strategy, no identification of a clear destination toward which the U.S. should be heading. Instead, for all of our undoubted power, the U.S. often seem to be at the mercy of the currents, carried downstream toward an uncertain destination instead of moving toward one of its own choosing. And while the U.S. attention is transfixed on the latest crisis that CNN has decided must be dealt with, the underlying structures are shifting, and historic opportunities fading.

Despite the U.S. power, it must resist the temptation of believing the U.S. can fix every problem, indulge in every wish. Part of the U.S. strategy must be to decide what it cannot do, what it chooses not to do, and to ensure that others take up their responsibilities.

I raise this issue not because I have a ready solution to offer, but because I fear that no one else does, either. I'm not sure anyone in our government is even thinking about one. But a practical, long-term vision is sorely needed; it is a prerequisite that we dare not continue to put off until some more convenient time. I say this not as a Republican; indeed, there is no hope of success unless it is broadly bipartisan. To accomplish that, we will need consensus in the Congress and in this city, as well as the support of the American people.

So, even as the U.S. responds to the challenge of terrorism, my great hope is that the U.S. will also use this new-found awareness of the world's dangers to plan for the future, unhurried, uncoerced, but mindful of the task at hand, aware that the U.S. opportunity to do so may fade and vanish altogether. The choice is clear: The U.S. can either shape the future or simply accept what a capricious fate may deal us.

The terrorists' actions have imparted a new realism to policymakers in Washington and to American society as a whole. Many illusions have vanished. In their place is a new willingness to acknowledge the dangers that the world presents us and a new resolve to take action to counter them. I think that gives the U.S. a good place from which to begin.

America has faced many enemies in her history, and she has triumphed over them all. I have no fear that the U.S. shall do so again with the newly prominent enemy of terrorism. But our task does not stop there. The new century will present the U.S. with many unpleasant surprises and



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many dangers, some familiar, others wholly new. The U.S. cannot simply wait for these to ambush us; we must prepare ourselves to meet them on U.S. terms and not those of our enemies.

A century ago, Britain stood majestically at the height of her power; within forty years, the knife was at her throat, and she survived only because the United States was there to rescue her. But the U.S. must always remember that there is no one to rescue us. That is why the U.S. must think long and hard about how it can use the opportunities that providence and the labors of two centuries have provided us to so shape the world that the need for rescue never occurs.

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# Transportation Support to the FMS Customer: Keeping Things Moving for the Navy Customer

By

**Ray Bilo**  
**Naval Inventory Control Point**

Readers of this *Journal* may recall reading our report on the PowerTrack<sup>®</sup> system that appeared in the summer 2000 *Journal* (Vol.22 No.4, page 117) issue. It outlined and described our efforts in using this internet-based product to process supply discrepancy report material. PowerTrack<sup>®</sup> is an online freight payment and transaction tracking system which offers powerful control for the logistics process. PowerTrack's<sup>®</sup> single-source information center provides instant access to shipment data for both carriers and shippers; eliminates the need for reconciling freight bills and invoices; guarantees fast, accurate payments; and provides exceptional, real-time and analytical reporting tools for better logistics management decisions. Some exciting developments have taken place in that process since that report and we wanted to take the opportunity to cover some other evolutions in transportation services to the FMS customer.

We have kept track of PowerTrack<sup>®</sup> performance and compared it with material tracked by other means. This is what we find:

**Table 1**  
**PowerTrack<sup>®</sup> Comparison**

Category	PowerTrack <sup>®</sup>	Other Means
Disposition to Depot Receipt	48.51 Days	111.11 Days
Disposition to Credit	101.26 Days	216.63 Days
Percent Missed Timeframe	<1.0%	13.02%
Percent Lost in Transit	0.0%	4.69%

**Table 2**  
**PowerTrack<sup>®</sup> Metrics**

Carrier Delivery Time	9.83 Days
Payment to U.S. Bank	14.1 Days
Cost Savings over Defense Transportation System	47.5%

It is clear, from any of the criteria listed, that PowerTrack<sup>®</sup> is a powerful tool that has improved customer service. We have begun testing this system for tracking transport of repair and return material. We are hopeful that the test will validate this as providing end-to-end ownership, shipment control, asset visibility, and consequent improvement in financial management and customer service.

We have developed a global transportation tracking system (GTTS) that monitors FMS material being transported through the defense transportation system (DTS) worldwide. The system provides a customer, located anywhere in the world, a seamless capability to access transportation information on a near real time basis. GTTS collects and integrates transportation information from several government and private carrier tracking systems. One of the features that sets GTTS apart from other logistics management systems is comprehensive in-transit

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visibility (ITV) functionality. ITV gives users and transportation managers the ability to look into the DTS pipeline at anytime to track status of FMS shipments; ITV also provides a tool to users to monitor and correct problems within DTS so that FMS material can be kept moving to its ultimate destination. GTTS will be will available on the NAVICP International Programs e-business suite within the near future.

We continue to work with Defense Logistics Agency (DLA) so that Navy FMS customers realize optimal service from the largest provider of consumable items. We have been focused on three initiatives which we are quite excited about:

- We are working on application of bar code technology to read shipping information from shipping labels. This capability will enable freight forwarders to print appropriate forms after scanning the label, thereby enabling us to remove the material from frustrated status due to missing documentation.

- We are going to test the use of optical memory cards on multi-pack FMS shipments. Information contained on these cards will contain all relevant information for the contents of the multi-pack shipments. The cards will have a 2.8 MeG data capacity, cost about \$6 per card, and be reusable. The cards will be impervious to bad weather and magnetic interference. Customer freight forwarders will need to obtain specialized hardware and software to support the cards. A test with a freight forwarder will commence in the near future; Defense Logistics Agency headquarters will monitor the test.

- The final initiative involves use of modified commercial software, called Package Track, to address documentation and tracking problems experienced by freight forwarders. Package Track provides a mirror image of documentation used to ship FMS material from DLA depots to freight forwarders. DLA depots and freight forwarders can securely log on the Package Track web site and produce required documentation and reports. The system provides freight forwarders with copies of DD1348-1A and DD 1149 forms. It also allows freight forwarders to produce required export documents directly from the information provided on the shipments. This will significantly reduce the man-hours invested in processing shipments for export and will afford freight forwarder the ability to produce DD 250 documentation and commercial packing lists and incorporate them into the required export documentation. This enhancement will be extended to DLA direct vendor deliveries in the future.

Our continued active partnering with the Defense Distribution Center (DDC) has resulted in significant reductions in errors (frustrated/misdirected cargo) related to FMS DLA depot shipments compared to the previous year. A documented 75 percent reduction in errors from last year, in addition to all the other initiatives cited in this article, means that we are serious when say, "FMS customers deserve to receive what they ordered on time, everytime."

### **About the Author**

Raymond J. Bilo was the Director of the Transportation Department at NAVICP-OF. He had been the director for sixteen years. Ray Bilo was recently promoted, and in his new position, will be working domestic transportation issues for NAVICP.

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# Navy Foreign Military Sales (FMS) eBusiness

By

**Ken Kittredge**  
**Naval Inventory Control Point**

## Introduction

The Department of Defense (DoD) Electronic Commerce/Electronic Business Strategic Plan states:

*By 2010, an enterprise-wide electronic environment will exist where best business practices and enabling technologies are used to facilitate the most efficient exchange of the full range of business information resulting in streamlined and rapid response to the warfighter and supporting Defense missions.*

Recognizing the need for the FMS customer to interact with the DoD supply system using electronic means, the Naval Inventory Control Point International Programs Director (NAVICP-OF) entered the electronic commerce age with the unveiling of its eBusiness Suite of applications in 1999. The technologies employed are standard tools used within DoD, Navy, and Naval Supply Systems Command (NAVSUP). This will allow eventual full integration with the NAVSUP *One Touch* system. These applications are intended to allow the foreign customer, U.S. Navy program managers, logistics element managers, and country managers direct access to various foreign military sales (FMS) related databases as well as electronic submission of business requests including requisitions for supply requirements. These applications improve business processes while reducing expenses through reduction in processing time and elimination of paper-based systems. The long-term goal of the eBusiness Suite is to provide completely electronic processing of all information, thus reducing processing times, improving feedback, and eliminating the necessity to produce paper. The eBusiness Suite currently contains fifty applications in eleven areas, most developed by the International Programs Directorate.

## Applications

The eBusiness Suite was designed for FMS customers' ease of use, and includes security features that ensure that country access is restricted by user identification and password to authorized users. The NAVICP philosophy has been first, to provide the FMS customer with as much access and capability as possible, while protecting country sensitive data; second, to present applications in a concise and clear manner, minimizing the number of screens necessary to maximize information flow; and third, to bring technology to the customers as rapidly as possible to ease their manual processing. The eBusiness Suite of applications includes submission forms, status centers, and powerful databases with full ad hoc query capabilities that are described below:

- **Requisitioning** - An on-line requisition system was developed to allow the FMS customer to enter requests for all types of requisitions, stock numbered, part numbered, and publications, as well as follow-ups, cancellations, and modifiers. Only authorized customers with valid user identifications and passwords are allowed access, and the system will only allow submission for the authorized country. The system includes a feedback mechanism through e-mail notification of receipt. An on-line help page was incorporated listing each field, its use, and proper entries. A batch upload feature was added to enhance the customer's ability to submit mass requisitions.

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- Supply Discrepancy Reports (SDR) - This was the first eBusiness application developed for the web. This form allows electronic submission of SDRs to an Oracle database. This submission database works in conjunction with the SDR database to reduce manual entry of data and ensure validation of entries. The system reduces keystrokes and errors on the part of SDR personnel and significantly speeds entry into the system. A feedback mechanism, similar to requisitions was created, and an e-mail is sent to the customer confirming receipt. A help page is available to guide the customer through each field. The SDR status center allows the FMS customer to view the status of individual SDRs. The customer enters the SDR number in order to retrieve the current status of the SDR with all pertinent information. On-line SDR reports and results of investigation are available for both the FMS customer and the supply activities holding the SDR. These online reports have resulted in a reduction of 108 work-days of effort.

- Quality Deficiency Reports (QDR) - At the direction of the NAVAIR/NAVSUP international logistics enterprise team (ILET), a QDR form was developed to improve and supplement the SDR process. Numerous FMS customers requested that QDRs be incorporated into the SDR system to ensure that all necessary information was available to make an appropriate decision. The QDR form, developed by combining the SDR (SF 364), and QDR (SF 368) forms into one form has the benefit of the FMS customer submitting one form, while the system prints two forms, thus reducing data entry. A help screen was incorporated to guide the user through the fields. This system was created to ensure that the FMS SDR/QDR is not treated as a one-time problem but rather, as a potential system problem. This processing ensures that potential systemic problems are identified and appropriate action taken, both for the FMS customer, and in the U. S. system. An adjunct system to ensure full visibility for the FMS customer of discrepant items was developed and displays discrepant material summaries by month.

- FMS Initial Support Tracker (FIST) - The NAVAIR/NAVSUP ILET developed the FIST tracking system to track spares, publications, and support equipment from identification to initial operating capability (IOC). This application is in two parts. The main application is included in the information warehouse suite of applications, while the add and update system is contained in the eBusiness Suite. Queries, presentation of data, and reports are available in the information warehouse application, segregated by country and case. This allows FMS customers, program managers, and assistant program managers for logistics (APMLs) full visibility of their programs and status. The eBusiness Suite application allows logistics element managers and APMLs to update existing data and enter new items to the system.

- Excess Defense Articles - This database allows the FMS customer to browse through items excess to Inventory Control Point system stocks that are being made available to the FMS customer. The customer can browse by surface or aircraft systems and can narrow searches by cognizance symbol, allowance parts list, aircraft type, and other categories. The system includes the national stock number, quantities available, original and reduced prices, units of issue, and nomenclature.

- Information Warehouse - The management information system for international logistics information warehouse is a powerful internet database application that allows the FMS customer full access to requisition and financial information. The user can define ad hoc queries to return a broad range of data, or selected specific data. Predefined or custom reports are available as well as a download capability that allows the user the ability to import data to other applications. Information available includes requisition, financial, case, SDRs, and FIST.

- Joint Total Asset Visibility - Under the eBusiness umbrella, various sites have been linked to allow the FMS customer and FMS country manager to find material with a minimum of effort. This information includes Global Transportation Network, Defense Logistics Agency, NAVICP, Defense Reutilization Marketing Office, NAVAIR, and other information sources.

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- Commercial Applications - Two applications have been developed to allow FMS customers visibility to requisitions that have been passed to the commercial sector. These are FMS hybrid and the fastline buying service.

- Tailored Repairables Item List (TRIL) - This application gives online access to pre-approved repairable items under the repair of repairables program. This gives the customer real-time access to items in the program as well as current repair depots and addresses.

## **The Future**

eBusiness development, particularly as it relates to FMS, is a new and exciting field providing FMS customers unprecedented visibility and access to their programs. FMS eBusiness will expand in the years ahead to comply with a true paperless environment while providing improved customer service and viability of the FMS system. Additionally, servers and operating systems are being upgraded to take full advantage of the capabilities of the internet. To reduce customer costs, access is available to FMS customers without the need for any special hardware or software; only a personal computer, an internet browser, and an internet service provider are required to take full advantage of these processes. In a competitive environment, access to information and improved business processes are required to maintain and increase the FMS customer base. In response to this need, a significant number of new applications are scheduled for development and deployment over the next year. These applications include a repair of repairables database, market pricing of material, online case reconciliation reviews, online metrics, a customer requisition management system, and an online ad hoc query system, as well as other customer and employee productivity enhancing applications. Further, current applications will be upgraded to provide additional detailed information and an improved customer interface. NAVICP's International Programs Directorate's goal is to provide the FMS customer with a completely electronic environment in time to satisfy the DoD electronic commerce/electronic business (EC/EB) strategic plan. During the next year, significant strides will be made to accomplish this goal.

## **About the Author**

Ken Kittredge has over twelve years of experience in the foreign military sales community and five years experience with internet technologies. He retired from the Navy in 1997 and has worked for Information Network Systems at NAVICP Philadelphia in foreign military sales since then.

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# ***EDUCATION AND TRAINING***

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## **DISAM Assumes Responsibility of International Programs Security Requirements Course**

**By**

**Lieutenant Colonel William E. Rimpo, USAF  
Defense Institute of Security Assistance Management**

Effective 1 October 2001 DISAM assumed responsibility for the International Programs Security Requirements Course (IPSRC). Register now on line at the DISAM Home Page, <http://disam.osd.mil> to complete this vital mandatory training.

Why do you need this course?

- A necessity as a matter of national security.
- It is a mandatory requirement for those employed in DoD international programs.

It is a necessity because it is a matter of national security. It is critical for the United States to have strong allies. We have many cooperative programs with our allies as well as appropriate foreign military sales to help ensure their strength. But just as important as it is to have these programs, it is equally important that we protect our sensitive and classified technology and military capabilities. It is vital that every DoD employee involved in international programs understands security arrangements, laws, policies, and procedures that govern foreign involvement in our international programs.

Your attendance is also a mandatory DoD requirement by direction of the previous Deputy Secretary of Defense, Dr. John J. Hamre. Dr. Hamre's letter of October 22, 1999 mandated that all DoD personnel who participate in international activities successfully complete a certified International Programs Security Requirements (IPSR) course. This requirement can be satisfied in one of five ways:

- The International Programs Security Requirements 5-Day Course
- The International Programs Security Requirements 2-Day Course
- The DISAM Security Assistance Management CONUS Course (SAM-C)
- The DISAM SAM Overseas Course (SAM-O)
- The International Programs Security and Technology Transfer Course taught by the Defense Systems Management College

The International Programs Security Requirements 5-Day and 2-Day Courses (IPSRC) were initially developed by the Office of the Deputy Under Secretary of Defense for Policy Support (ODUSD(PS)) who was given the charter by the Deputy Secretary of Defense to take the lead in ensuring the requirement was fulfilled as specified in Dr. Hamre's letter. ODUSD(PS) developed



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a course of instruction that covers International Programs Security and ensures that all applicable employees become fully trained. As the office responsible for implementing the IPS program, ODUSD(PS) has approved the course content of the DISAM's CONUS and Overseas courses as satisfying the DoD requirement.

On October 1, 2001, ODUSD(PS) turned over management of the IPSR 2-Day and 5-Day Courses to DISAM. DISAM will provide all administration and registration of the 2-Day and 5-Day Course. Course instruction for the 5-Day Course will be conducted by a contractor currently on contract with ODUSD(PS). Instruction of the 2-Day Course will be shared between the contractor and DISAM. ODUSD(PS) still maintains oversight of the course, providing all policy decisions on IPSRC course content and requirements for attendance. They also continue to take all necessary actions to ensure IPSRC course attendance by personnel from the military departments and other DoD components.

Now that you know you are in a position that requires your attendance at an IPS course, you want to know "what course is right for me – SAM-C, SAM-O, IPSR 2-Day Course, or the IPSR 5-Day Course"?

The answer is easy. If you are a mid-level military or DoD civilian newly assigned in a security assistance billet located either in the CONUS or Overseas, then you can satisfy the IPS requirement by attendance in the SAM-C or SAM-O Course. These courses were certified on October 1, 2000 by ODUSD(PS) for the IPS requirement.

You should attend the IPSR 5-Day Course if you are a DoD or other government employee or defense contractor who has "hands-on" involvement in international programs, such as negotiating, managing, executing, or otherwise directly participating in international government or commercial programs (foreign military sales, cooperative research and development, commercial sales, license application review, systems acquisition, foreign contracting, foreign disclosure, international visits and personnel exchanges, program protection, or industrial security).

You should attend the IPSR 2-Day (Short) Course if you are a management-level person or other government or contractor person whose job does not require the depth of instruction presented in the IPSR 5-Day (Long) Course.

So sign up today. Courses are available in fiscal year 2002 at DISAM, Wright-Patterson Air Force Base, Ohio and at many locations across the country. If you have any questions, or would like information about hosting one of the IPS courses at your DoD or contractor location, call Lt Col Bill Rimpo at (937) 255-8187, or e-mail at [william.rimpo@disam.dsca.osd.mil](mailto:william.rimpo@disam.dsca.osd.mil).

### **About the Author**

Lieutenant Colonel Bill Rimpo is an instructor of security assistance management at the Defense Institute of Security Assistance Management. His duties include functional and course coordinator for the International Program Security Requirements Course and Deputy Director, Academic Support. He graduated from the Air Force Institute of Technology with a degree in logistics management in 1986. Lieutenant Colonel Rimpo served in a variety of operations and maintenance positions in the inter continental ballistic missile career field as well as logistics plans in Air Force Materiel Command and Defense Logistics Agency.

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**Scheduled Classes For The  
International Program Security Requirements Short Course**

SAM IE-1S-02	22-23 Jan	San Diego, California
SAM IP-2S-02	24-25 Jan	Wright-Patterson AFB, Ohio
SAM IP-3S-02	21-22 Feb	Washington DC, Pentagon
SAM IP-4S-02	18-19 Mar	Washington DC, Society for International Affairs
SAM IP-5S-02	16-17 May	Washington DC, Pentagon
SAM IP-6-02	30-31 May	Wright-Patterson AFB, Ohio
SAM IP-7S-02	22-23 Jul	Washington DC, Pentagon
SAM IP-8S-02	8-9 Aug	Los Angeles, California
SAM IP-9S-02	5-6 Sep	Wright-Patterson AFB, Ohio
SAM IP-10S-02	23-24 Sep	Washington DC, Pentagon
SAM IP-11S-02	24-25 Oct	El Segundo, California
SAM IP-12S-02	28-29 Oct	Colorado Springs, Colorado

**Scheduled Classes For The  
International Program Security Requirements Long Course**

SAM IP-9L-01	26-30 Nov	Tampa, Florida
SAM IP-10L-01	3-7 Dec	Ft. Belvoir, Virginia
SAM IP-1L-02	14-18 Jan	Long Beach, California
SAM IP-2L-02	11-15 Feb	Austin, Texas
SAM IP-3L-02	25 Feb-1 Mar	Dobbins AFB, Georgia
SAM IP-4L-02	11-15 Mar	Redstone Arsenal, Alabama
SAM IP-5L-02	8-12 Apr	Stennis Space Center, Mississippi
SAM IP-6L-02	22-26 Apr	Wichita, Kansas
SAM IP-7L-02	20-24 May	Ft. Belvoir, Virginia
SAM IP-8L-02	3-7 Jun	Wright-Patterson AFB, Ohio
SAM IP-9L-02	24-28 Jun	Nashua, New Hampshire
SAM IP-10L-02	15-19 Jul	Hanscom AFB, Massachusetts
SAM IP-11L-02	12-16 Aug	San Jose, California
SAM IP-12L-02	16-20 Sep	Ft. Belvoir, Virginia
SAM IP-13L-02	18-22 Nov	Ft. Belvoir, Virginia
SAM IP-14L-02	9-13 Dec	Tampa, Florida

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**Select Intl Programs Security**

**Select either the Short or Long Course**

**Select on line registration**

This page is perforated.

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# Electronic Case Coordination and Tracking - Team Effort

By

**Beth M. Baker**  
**Defense Security Cooperation Agency**

and

**Nels E. Berdahl**  
**Information Spectrum, Inc.**

During the past year, tremendous energy has been invested in efforts to improve the foreign military sales (FMS) process. One such effort came to life on August 13, 2001 as procedures were implemented to allow the Defense Security Cooperation Agency (DSCA) to electronically coordinate and countersign letter of offer and acceptance (LOA) documents. A team of dedicated professionals from the Defense Security Assistance Development Center (DSADC) designed and developed the software changes to the Defense Security Assistance Management System (DSAMS) that enabled implementation of the electronic case coordination and tracking (CCT) enhancements. The DSAMS Program Management Office (PMO) ensured the policy, software changes, and business process changes were consistent and also provided overall coordination of the deployment efforts. Implementing agencies (IA) had to incorporate important business process changes in addition to learning the commercial software tool used to create the electronic packages. At the DSCA Security Cooperation Conference in September 2001, Lieutenant General Walters, the DSCA Director, announced the initial results: average DSCA processing time of documents requiring DSCA coordination had declined from an average of eighteen days to seven days. This dramatic drop in processing time is impressive, and DSCA is confident the time will improve as the process is refined.

## Why Now?

While the concept of electronic LOA document processing has been on-the-table for the past two years, planning and design for the electronic CCT changes began in earnest only in January of this year. During the January meeting of the DSCA Director and Deputy Director, Office of the Deputy Under Secretary of the Air Force (SAF/IA) and the military departments (Security Cooperation 5) requested expedited implementation of this capability. The consensus of the

### What's in a phrase?

The terms "electronic DSCA Countersignature," and "Electronic Case Coordination and Tracking" have both been used to describe the functionality deployed in DSAMS Release 6.05.07 on August 13, 2001. Both terms refer to the new process of coordinating documents electronically through DSCA.

Security Cooperation 5 was electronic counter-signature could save significant time in the LOA process and would allow for greater consistency and quality in our reviews. DSCA met with the military departments in February and outlined a plan to make this happen. The full suite of requirements that had already been defined included advanced tracking, reporting, and query capabilities. The group knew that this list had to be pared down if we hoped to make an August implementation a reality.

Lieutenant General Walters approved the proposed requirements in March and the real work began.

The DSADC met with the DSCA Policy, Plans and Programs office, the Program Management Office and the military departments in April to brief the proposed functionality and

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discuss concerns. In addition to processing documents electronically, functionality was proposed to allow case status to be updated automatically throughout this process. This would eliminate the need for duplicate entry of milestones and would ensure that case data could be locked out from changes during critical review processes. As a result of this meeting, DSCA issued an official announcement of the upcoming changes: DSCA Memorandum 01-08 of April 17, 2001 entitled *Case Coordination and Tracking Enhancements*. The intent of that memorandum was to provide the implementing agencies time to plan for internal business process changes that might be required and to identify *trigger* milestones that would be used to advance case status. During the spring of 2001, the DSAMS software changes were made, refined and tested. A commercial off-the-shelf software package was selected to prepare the electronic coordination packages. The DSAMS training team worked with the implementing agencies to refine internal procedural and process changes to support the new CCT. User training began on August 1, 2001 with 158 DSCA and implementing agency personnel receiving training in the new procedures and software before the August 13, 2001 deployment.

### **How Does Electronic Coordination and Tracking Work?**

In the past the LOA documents would be reviewed and signed by the implementing agency and mailed to DSCA for review. DSCA would in-turn coordinate, countersign, and mail the documents back to the implementing agency. This entire process took an average of 18 days. Under the new process, after the document has been prepared and reviewed by the appropriate implementing agency staff, the military department/implementing agency signature (MILSGN) milestone is posted to DSAMS. The implementing agency then prepares an electronic approval package which includes a DSCA cover memorandum, the customer request, (scanned in if not received in electronic format), the case version document itself, and any other required documents, e.g., the manpower worksheet, termination liability worksheet (TLW) and/or financial analysis worksheet (FAW).

The implementing agency then attaches the electronic package to an e-mail and sends the package to a special e-mail address at DSCA. [This report is used as a *check report* to identify case versions that have been moved to *Proposed* status, but the implementing agency electronic package has not been received by DSCA.] The DSCA resource management (DSCA-COMPT/RM) staff monitors the special e-mail account throughout the business day and conducts an initial review of the package. The package is then forwarded to the appropriate country program director and country finance director for coordination. Under the old manual process, a hard copy document package was forwarded to a single reviewer who would complete his or her review before passing the document to the next reviewer. After coordination was complete, the case was physically countersigned by DSCA and returned to the implementing agency for mailing to the customer. Under the electronic process, the coordination now happens in parallel and there is no longer a physical DSCA countersignature on the document.

When the implementing agency posts the MILSGN milestone to DSAMS, the case version automatically advances to *Proposed* status. DSCA-COMPT/RM uses the *Proposed document summary report* (RP140) to determine those case versions that are ready for DSCA review. This report is used as a *check report* to identify case versions that have been moved to *Proposed status*, the implementing agency electronic package has not been received by DSCA.

Once the electronic package has been fully coordinated inside DSCA, DSCA-COMPT/RM personnel approve the document (DCSGN milestone) or reject the document (DCSGNRJ). If approved, the document will contain a statement (Figure 1) indicating DSCA's approval. This approval statement replaces the DSCA comptroller signature that previously was required on the document. If rejected, the case version status reverts automatically to the *Development* status so the implementing agency can make the required corrections. DSCA reviewers are required to

make comments to the case within DSAMS to explain the rationale behind any rejections. If the implementing agency determines that it needs to make a change to a case version document that has already been submitted to DSCA for coordination, the implementing agency can request DSCA to return the document to the implementing agency (DDOVRTN milestone). This action moves the case version status back to *Development* and the return is not considered a rejection. From a document control and editing perspective, the MILSGN and DCSGN milestones now automatically change the case version status, helping to ensure that DSAMS and legacy systems all reflect the correct status of the case.

<u>Director, Security Assistance Training</u>	_____
Typed Name and Title	Typed Name and Title
<u>HQ TRADOC ATTG-S, Ft. Monroe, VA 23651-1003</u>	_____
Implementing Agency	Agency
<u>DSCA Reviewed Approved</u>	<u>06 Aug 2001</u>
DSCA	Date
Information to be provided by the Purchaser	
Mark For Code _____, Freight Forwarder Code _____, Purchaser Procuring Agency Code _____	

**Figure 1**

### **What about State Department Approval?**

All basic cases must be approved by the State Department, but not all basic cases required DSCA countersignature. Prior to August 13, 2001 the automated case approval system (ACAS) was used to coordinate qualified documents, see chapter 70103.H of the *Security Assistance Management Manual* (SAMM) with the State Department. The implementing agency would identify a case version as ACAS eligible. When the document was approved (MILSGN milestone) by the implementing agency, case version data was electronically passed to ACAS. A state list document was generated, and passed to the State Department for its review and approval. The actual case version document was not forwarded to DSCA or the State Department.

Subsequent to August 13, 2001 the ACAS role is being handled by DSCA, and the process has been renamed automated State Department approval (ASDA). The ACAS eligibility rules of SAMM paragraph 70103.H now apply to ASDA processing. However, the *trigger* milestone is now MILSGN, but not MILAP. If the case version shows that the State Department approval is required but DSCA countersignature is not, when the MILSGN milestone is posted, a state list (STLST) milestone with a planned date plus one (+1) is created. DSCA runs the DSAMS state List Report (RP139) daily in mid-afternoon. All case versions with a STLST milestone with a planned date will be printed on the report. This report is then sent to the State Department for their review and approval. Upon approval of the case version, State Department approval (STAP) and STLST milestones are created with an actual date. The STLST milestone with an actual date will remove the case version from the state list report. If the State Department disapproves the case version a State Department disapproval (STDAP) milestone as well as a STLST with an actual date is created, and the case version status is changed back to *Development*.

If the case version requires the State Department and DSCA approval, DSCA will review the case version first. After reviewing the case, the case status will change to a STLST milestone with

a planned date. This will add the document to the state list report. After State Department approval, DSCA will countersign (DCSGN milestone) the document which will generate the creation of the STLST milestone with an actual date and remove the case version from the State List report.

Prior to implementation of these procedures, the State Department approval took approximately 24 to 48 hours. Under the new procedures, the State Department is generally able to provide its responses on the same day requested.

### How Will Case Versions Change *Status* Under the New System?

Significant enhancements have been made with regard to case status changes in DSAMS. The basic process steps remain the same – each case version requiring customer acceptance (basic cases and amendments) moves through the following case status states:

**Development** → **Proposed** → **Offered** → **Accepted** → **Implemented**

Posting of milestones and the advancement of case version status were previously two separate actions. In the new electronic case coordination tracking environment, there is much tighter control of document version progression through the coordination and approval cycle. The change case status window was removed from DSAMS. Case version status now changes in response to the posting of certain milestones. When an authorized user saves a milestone that changes the case version status, the controlled milestone window (a new window) is displayed. The user enters the milestone date (when applicable – some milestone dates will be set to the current date) and adds any comments that apply. The controlled milestone window displays a message to indicate that the case version status will change when the milestone is saved. The following table lists the milestones that will *trigger* a change the case version status.

**Controlled Milestone Window**

<b>Milestone</b>	<b>Special Requirement</b>	<b>Target Version Status</b>
DCSGN	Not a Modification	<i>Offered</i>
	Modifications	<i>Offered</i> (Beginning in Feb 02 will automatically <i>Implement</i> )
DCSGNRJ	None - DSCA rejection	<i>Development</i>
DDOVRTN	None - DSCA return of a document at the request of the implementing agency.	<i>Development</i>
STAP	DSCA countersignature is not required. The document is not a modification.	<i>Offered</i>
	DSCA countersignature is not required. The document is a modification.	<i>Offered</i> (Beginning in Feb 02, will automatically <i>implement</i> )
STDAP	None - State Department disapproval.	<i>Development</i>
MILSGN	DSCA countersignature and/or State Department approval is required.	<i>Proposed</i>
	P&A that does not require DSCA countersignature and/or State Department approval.	<i>Offered</i>
	Modification that does not require DSCA countersignature and/or State Department approval.	<i>Offered</i> (Beginning in Feb 02, automatically <i>Implemented</i> )
OFFERACC	None	<i>Accepted</i>
MILCAN	None	<i>Cancelled</i>
MILIMP	None	<i>Implemented</i>
MILREACT	None - use to reactive a canceled case version	<i>Development</i>

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## How Are Milestones Created?

Several milestones that previously could be added manually in the case milestone list window now must be entered by selecting a menu option in the case milestone window. This change was made to limit access to some of these milestones. For example, only DSCA will be able to add certain milestones. Also some of the menu options have been moved to be compatible with the new menu structure. When a milestone is saved that requires the user to enter a milestone date, the controlled milestone window (new window) will be displayed where the user can enter a milestone date. The other menu options will display the milestone comment window. The following are the milestone selections that changed in August 2001.

### Milestone Comment Window

Milestone	Menu Path
DSCAEMERGY	Tools/DSCA Options/DSCA Emergency Implementing Authority
CADVNOT & ADVNOTEND	Tools/DSCA Options/DSCA Advance Congressional Notification
CSTANOT & STANOTEND	Tools/DSCA Options/DSCA Statutory Congressional Notification
DCSGN	Tools/DSCA Options/Countersign Proposed Document
DCSGNRJ	Tools/DSCA Options/Reject Proposed Document
DREACT	Tools/DSCA Options/DSCA Reactivation Authority
DHOLD	Tools/DSCA Options/DSCA Hold
DHOLDREM	Tools/DSCA Options/DSCA Remove Hold
STLST	Tools/State Options/State List
STAP	Tools/State Options/State Approval
STDAP	Tools/State Options/State Disapproval
SHOLD	Tools/State Options/State Hold
SHOLDREM	Tools/State Options/State Hold Removed
MILSGN	Tools/MILDEP Options/MILDEP Signature
OFFERACC	Tools/MILDEP Options/Offer Accepted
MILCAN	Tools/MILDEP Options/MILDEP Cancellation
MILIMP	Tools/MILDEP Options/Implement Case
MILREACT	Tools/MILDEP Options/MILDEP Reactivation
HOLD	Tools/MILDEP Options/Hold
HOLDREM	Tools/MILDEP Options/Remove Hold
SUSPEND	Tools/MILDEP Options/Suspend
REMSUSPEND	Tools/MILDEP Options/Remove Suspend
DOCMNTSENT	Tools/MILDEP Options/Document Sent

### Are There Any New Milestones Required?

New milestones added in August 2001 include:

Milestone	Description
DREACT	DSCA will enter this milestone to allow the MILDEP to change the case version status of a case version from <i>cancelled</i> to <i>development</i> when the case version was previously <i>Offered</i> (case milestone window).
MILCAN	DSAMS creates this milestone when the MILDEP cancels a case version (case milestone list window).
MILIMP	DSAMS will generate this milestone when the MILDEP manually implements a case version (case milestone list window).
MILREACT	DSAMS will generate this milestone when the MILDEP changes the case version status from <i>cancelled</i> to <i>Development</i> (case milestone list window).



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## What About the New MILSGN Milestone Validation?

A transaction (transaction type S1 – see chapter 15, para. 150005.A of the *SAMM*.) has to be accepted by the DSCA 1200 system prior to the case version document being forwarded to DSCA for coordination and/or State Department approval. If the S1 transaction is not sent to DSCA upon the initialization of the case version, it is sent when the MILAP (MILDEP Approval) milestone is created. Previously, you could enter a MILAP milestone and immediately add the MILSGN (MILDEP Signature) milestone. Then you might have to wait until the S1 transaction is accepted by the DSCA 1200 system before you sent the case version document to DSCA.

With the August 2001 release, the MILSGN milestone changes the case version status to *Proposed*. DSCA begins its coordination and review upon receipt of the electronic package. If State Department approval is required and DSCA countersignature is not, the case version automatically appears on the State list report that is sent to the State Department for review and approval. So the case version has to be in the 1200 system prior to entering the MILSGN milestone. A validation has been added that will determine if the required S1 transaction has been accepted (S1ACCEPT) by the DSCA 1200 system. The validation will alternatively look for the presence of a rejection (S1REJECT) that indicates the case version was previously reported to the 1200 system prior to MILSGN milestone being added.

## Summary

The changes that were *Implemented* on August 13, 2001, are specifically targeted at reducing the processing time for FMS documents. While successful, it is not the last improvement, but rather a solid beginning. Implementing agency and DSCA personnel are continuing their efforts to reduce the time it takes to respond to a customer request with an LOA, while maintaining the quality and accuracy of those documents.



3 August 2001  
In reply refer to:  
I: 01/009272-PMD

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Implementation of Electronic Countersignature Processes (DSCA 01-21)

REFERENCE: DSCA Memorandum 01-08, "Case Coordination and Tracking (CCT) Enhancements," 17 Apr 01

The referenced memorandum announced our plans to enhance the Defense Security Assistance Management System (DSAMS) to allow us to electronically coordinate and countersign Letter of Offer and Acceptance (LOA) documents. The modifications to DSAMS are progressing very well and we are on schedule for a 13 Aug 01 implementation date. We would like to thank all of the military departments for their participation in this project – your efforts have been instrumental in making this happen.

The changes being made to DSAMS include additions/deletions/modifications to system milestones, automatic status progression for certain documents, ability to create portable document format (pdf) versions of the documents, etc. In order to ensure a smooth implementation, we would like to offer more detailed information about these changes as well as some "tips" for successfully submitting an electronic countersignature package. The following policy guidance and instructions are provided for this purpose and should be given wide distribution to everyone involved in the document preparation and coordination processes.

a. Users will have an opportunity for training prior to implementation. If you have not already been scheduled to attend a session, please contact your DSAMS training point of contact for information on training times and locations as soon as possible. Members of the DSAMS training team will also be on-site at various locations during the week of implementation to address any problems/concerns.

b. Our referenced memorandum provided a list of milestones and their associated status changes that will be effective with CCT implementation. The military departments have expressed some concern with automatic implementation of modifications as originally planned. Therefore, we have decided to delay implementation of this piece of CCT to allow the military departments time to establish working groups and determine what system or procedural changes may be required within their organizations in order to implement this change. Automatic implementation of modifications will be delayed until 18 Feb 02 and we have revised the matrix to reflect this delay (attachment 1). Each of the military departments and other interested implementing agencies should provide DSCA/P3-P2 with a firm plan of action by 17 Aug 01 indicating what actions they will take to meet this new deadline. Working groups should be established as soon as possible with all players (to include DSCA) participating.

c. Electronic countersignature procedures will be mandatory for all countries' cases – including Taiwan. For Taiwan case documents, all milestones will be entered within DSAMS and the implementing agency will be responsible for transferring signature dates and information onto the cover memorandum to the American Institute in Taiwan. Automatic status changes will be performed for leases also, but lease documents will continue to be processed in hardcopy format at this time.

d. DSCA will continue to accept hardcopy documents for emergency situations and classified cases. All DSAMS milestones must still be entered for these documents and DSCA should be notified in advance that these documents will be processed in hardcopy form.

e. We understand that some documents may already be in the "pipeline" after

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13 Aug 01. Through 24 Aug 01, we will continue to process any hardcopy document that is received as long as it is in *Proposed* status. Any hardcopy documents that are received in *Development* status will be returned to the implementing agency for submittal through the electronic countersignature procedures. Any hardcopy documents that are rejected by DSCA for any reason, must be resubmitted using electronic countersignature procedures. After 24 Aug 01, DSCA will no longer accept hardcopy documents for countersignature unless it is an emergency walk-through or a classified document.

f. DSCA will be notified automatically when case documents have moved to *Proposed* status. We will then be expecting to receive an e-mail requesting our approval and forwarding all of the applicable files (document, manpower worksheet, etc.). All e-mails submitting packages for countersignature must be sent to: loa-dsca@osd.pentagon.mil. DSCA cannot review the package until both of these actions have taken place – the *Proposed* status change and receipt of the e-mail. When we receive notification that a document is in *Proposed* status, we will allow a 24-hour grace period to receive the associated e-mail package. If we have not received it by that time, the document will be rejected back to the implementing agency for resubmittal. If you are having system problems at any time and cannot meet this timing requirement, please contact DSCA/COMPT-RM.

g. DSCA receives 30-40 LOA documents each day. In order to ensure consistency in the packages we receive, we are requiring a specific naming convention for files submitted for countersignature. Samples of these file naming conventions are provided with this memorandum (attachment 2) and will be emphasized/practiced in the training.

h. The electronic countersignature process requires the use of DSAMS and Adobe Writer for pdf file creation. The training provided will show users how to create and bookmark files using this software. We understand that creating these files and putting them into the desired bookmark format may not be easy at first. To accommodate everyone's learning curve, DSCA will accept e-mails with appropriate attachments that are not all converted to pdf files (i.e., manpower worksheets in Excel) for an interim period of time. By 18 Feb 02, however, all packages must be submitted in the standard bookmark format. It should be noted that the pdf files are solely for internal USG coordination – the system will automatically identify them as "Draft."

i. Under electronic countersignature procedures, the Automated Case Approval System (ACAS) will no longer be used. The ACAS eligibility field on DSAMS screens will be "grayed out" in this release so that it can no longer be entered. Instead of ACAS, we will be using Automated State Department Approval (ASDA) to allow cases to be approved by State without DSCA countersignature. For ASDA eligible cases (same rules that applied under ACAS), implementing agencies will not forward pdf packages or files to DSCA.

j. Under the new procedures, DSCA reviewers will be entering their comments in the "Case Remarks" section of DSAMS. This field is currently at the "case" level and does not automatically identify which document version the reviewer is commenting on (e.g., Amendment 2, Modification 1, Basic LOA, etc.). To make it easier to track these comments, we will require DSCA reviewers to use a specific format when creating a title for their comments. The title must be entered as follows: Document Version, Revision Number (if applicable), Individual's Office, Concur/Nonconcur. The Individual's Office should match the identifier used on the countersignature mailboxes that have been established. A sample entry might read: "A02, Rev2, ERASA-ASA, Nonconcur." DSCA reviewers must enter Case Remarks for all nonconcurrences. Comments may also be entered for concurrences (optional).

k. Implementing agencies should use existing DSAMS Management Flags or establish new Management Flags to provide notification, as a minimum, when documents have been countersigned by DSCA (Milestone – DCSGN), returned from DSCA (Milestone – DDOCRTN), or rejected from DSCA (Milestone – DCSGNRJ). In most instances, existing Management Roles should suffice, but it may be necessary to create new ones based on your changed business process. Some users may already be receiving a Management Flag for document status changes and would be notified of the above actions through that Flag; however, these new Flags will provide more information for the status change. New and changed Flags and Roles should be created as soon as possible after the 13 Aug 01 deployment of DSAMS Release 6.05.

l. This new release of DSAMS allows for holds and suspensions to be placed on documents. These capabilities cannot be used as a substitute for rejecting documents or for moving documents through the process in a timely manner. Unlike in the past, holds in the new system do not "stop the clock" – the time period during which the case is on hold will be included in the LOA processing metric time calculations.

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m. When the case is countersigned and the implementing agency has received notification that the case is in *Offered* status, the implementing agency will sign the document and send it to the customer. At this time, the implementing agency will also be responsible for sending a hardcopy of the document and the termination liability worksheet (if applicable) to DFAS-AY/DE. Under our previous procedures, DSCA sent a copy of the documents to DFAS-AY/DE – since we will no longer be receiving the hardcopies, it is necessary for the implementing agencies to take over this function.

If you have any questions about these procedures or require additional information regarding electronic countersignature, please contact Beth Baker, DSCA/P3-P2, (703) 604-6612 or e-mail [beth.baker@osd.pentagon.mil](mailto:beth.baker@osd.pentagon.mil). We are excited about the implementation of these procedures. We will all need to be patient during the first few weeks of this process (allowing for learning curves, etc.), but we are confident this new automated procedure will greatly improve the consistency and timeliness of all document reviews. Thank you for your cooperation.

//Signed//  
TOME H. WALTERS  
LIEUTENANT GENERAL, USAF  
DIRECTOR

Attachments

1. Status Changing Milestone Matrix
2. File Naming Conventions

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FINANCE AND ACCOUNTING SERVICE - DENVER CENTER

cc: AMSAC-OL-MP

### Status Changing Milestone Matrix

Menu Option	Status Changing Milestone	Approvals	Document	System Directed Status	Related Milestones
MILDEP Signature	MILSGN	Only State Department approval is required	* LOA, Amendment, or Modification	<i>Proposed</i>	PSTATUS STLST
MILDEP Signature	MILSGN	Only DSCA Countersignature is required	* LOA, Amendment, Modification * LOI, LOI Amendment	<i>Proposed</i>	PSTATUS DAPREQ
MILDEP Signature		Both DSCA Countersignature and State Department approval are required	* LOA, Amendment, Modification * LOI, LOI Amendment * Lease		PSTATUS DAPREQ
MILDEP Signature	MILSGN	None (MILDEP Signature only)	* Amendment, Modification	<i>Offered</i>	OSTATUS <i>Offered</i>
MILDEP Signature	MILSGN	None (MILDEP Signature only)	* Planning	<i>Offered</i>	OSTATUS <i>Offered</i>
MILDEP Signature	MILSGN	None (MILDEP Signature only)	* SANG Definitizing Document (Army unique) * LOA, Amendment, Modification * LOI, LOI Amendment * Lease, Lease Amendment * Planning * OA Revision	<i>Offered</i>	OSTATUS <i>Offered</i>
MILDEP Cancellation	MILCAN	N/A		<i>Cancelled</i>	XSTATUS
Implement Case	MILDIMP	N/A	* LOA, Amendment, Modification * LOI, LOI Amendment * Lease, Lease Amendment * OA Revision	<i>Implemented</i>	ISTATUS

Status Changing Milestone Matrix (Continued)				
Menu Option	Status Changing Milestone	Approvals	Document	System Directed Status      Related Milestones
Reactivation	MILREACT	N/A	*LOA, Amendment, Modification *LOI, LOI Amendment *Lease, Lease Amendment *Planning *OA Revision	Development      DSTATUS
Countersign Proposed Document	DCSGN	Only DSCA Countersignature is required	*LOA, Amendment, Modification *Lease, Lease Amendment	Offered      OSTATUS Offered
Countersign Proposed Document	DCSGN	Both DSCA Countersignature and State Department approval are required	*LOA, Amendment, Modification *LOI, LOI Amendment *Lease, Lease Amendment	Offered      STAP Offered      OSTATUS Offered
Reject Proposed Document	DCSGNRJ	DSCA Countersignature and/or State Department approval is required	*LOA, Amendment, Modification *LOI, LOI Amendment *Lease, Lease Amendment	Development      DSTATUS
Return Proposed Document	DDOCTRN	N/A	*LOA, Amendment, Modification *LOI, LOI Amendment *Lease, Lease Amendment	Development      DSTATUS
State Department Approval	STAP	Only State Department approval is required	*LOA, Amendment	Offered      OSTATUS Offered
State Department Disapproval	STDAP	Only State Department approval is required	*LOA, Amendment, Modification	Development      DSTATUS
Offer Accepted	OFFERACC	N/A	*LOA, Amendment *LOI, LOI Amendment *Lease, Lease Amendment	Accepted      ASTATUS

\*NOTE: Information provided for modifications will be effective until February 18, 2002. After that time, automatic Implementation of modifications (upon MILSGN or DCSGN) will be implemented in DSAMS and a new matrix will be issued.

Attachment 1

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### **File Naming Conventions Required for DSAMS Electronic Countersignature**

Each file name should start with the case identifier and then indicate which version of the document is being submitted. The file name should also include an abbreviation for the specific attachment that is being provided (i.e., termination liability worksheet, financial analysis worksheet, etc.). The following samples are provided.

<b>File Name</b>	<b>Document Applies To</b>
BN-B-SAA-BASIC-PKG.pdf	Master pdf file which includes subfiles as required
BN-B-SAA-BASIC-LOR.pdf	Letter of Request for the basic case
BN-B-SAA-BASIC.pdf	Letter of Offer and Acceptance
BN-B-SAA-BASIC-TLW.pdf	Termination Liability Worksheet for the basic case
BN-B-SAA-BASIC-FAW.pdf	Financial Analysis Worksheet for the basic case (NOTE: Only required for SDAF cases.)
BN-B-SAA-BASIC-MNP.pdf	Manpower Worksheet for the basic case
BN-B-SAA-BASIC-MTCR.pdf	Missile Technology Control Regime information for the basic case
BN-B-SAA-BASIC-RESTATE.pdf	Restatement of the basic case
BN-B-SAA-BASIC-REV1.pdf	Revision 1 to the basic case used when the case is rejected and returned with changes made.
BN-B-SAA-A01.pdf	Amendment 1 to the LOA
BN-B-SAA-A01-TLW.pdf	TLW for A01
BN-B-SAA-A05-NCWAIVER.pdf	NC Waiver information for A05
BN-B-SAA-M03-REV1.pdf	Revision 1 to M03 used when the modification is rejected and returned with changes made

NOTE: The e-mail sent to DSCA should also include the case identifier in the subject line and should indicate what action is required (i.e., approval, resubmittal, etc.). For example: "BN-B-SAA-BASIC Approval Request."

Attachment 2

### **About the Authors**

Beth Baker is Chief of the Policy and Plans Division of the Policy, Plans and Programs Directorate of the Defense Security Cooperation Agency. Beth has 17 years of experience in the FMS policy area, and worked at SAF/IA before moving to DSCA in August 1997.

Nels Berdahl is an employee of Information Spectrum, Inc., and has provided user training and implementation field support to the DSAMS PMO since December 1998. Nels is a former DISAM instructor who also served a tour at NAVILCO (now NAVICP-OF).

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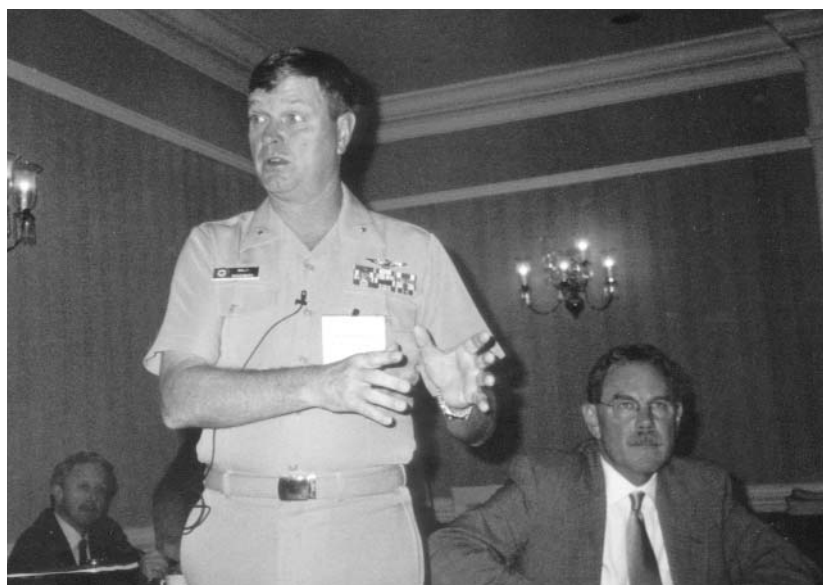
# **The Naval Aviation FMS Logistics Conference**

**By**

**Lieutenant Paul B. Dougherty, SC, USN  
Defense Institute of Security Assistance Management**

The Naval Aviation Foreign Military Sales (FMS) Logistics Process Improvement Team (LPIT) met for its annual FMS Logistics Conference, July 9-12, 2001, in Virginia Beach, Virginia. LPIT is a forum to bring customers, industry, and government together to improve support for FMS customers. This year's conference theme was "Customer Focus, Customer Driven". The purposes of the conference were to report on prior LPIT initiatives and commitments; to inform customers, industry, and government partners about Naval Aviation logistics issues; and to refocus the team on the customers' priorities. Attendees included members of the Naval Aviation FMS Logistics Steering Committee (LSC), the International Logistics Enterprise Team (ILET), the FMS Customer Advisory Group (CAG), the Industry Advisory Group (IAG), the Integrated Program Team (IPT), and Navy/DLA support activity personnel involved in international programs. Security assistance foreign representatives from ten different countries and industry representatives from twenty different U.S. companies also attended the conference.

The conference provided a forum to develop action items, and document current concerns in the private sector and the international customer community. A list of customer and industry concerns was compiled and ranked by the customers, and the top eight issues were then addressed by working groups and reported to the Logistics Steering Committee.



**Rear Admiral (Lower Half) Wally Massenburg and Steve Bernard provide opening remarks.**

## **Naval Air Systems Command Issues and Initiatives**

Rear Admiral (Lower Half) Wally Massenburg and Steve Bernard from Naval Air Systems Command (NAVAIR-3.0) opened the conference. Admiral Massenburg recapped some of the domestic issues. He noted that a few years ago there was a focus on production of new equipment, not on the recapitalization of current equipment. Now it is apparent that the Navy needs to recapitalize 150 to 160 aircraft per year. Efforts have shifted to keeping older aircraft flying. Admiral Massenburg said FMS customers should see better support and engineering efforts in 2002 and 2003. Funds have been allocated for obsolescence issues, and piece parts



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support will be the main concern. Next year NAVAIR will invest \$21 million in publications. Electronic publications have not been as effective as anticipated, so NAVAIR will update printed publications.

After Admiral Massenburg's opening remarks, Mr. Bernard provided an update on the efforts of the FMS LPIT. He stated there is a formally documented direct exchange program for repair and exchange of repairables. The repair item replacement option will reduce turnaround time and cost. This past year, FMS reserve business rules were written and approved. The FMS reserve saves excess and obsolete Navy materiel that will be needed by FMS customers. Other LPIT issues being worked include access and pricing of technical data. Mr. Bernard also said enterprise resource planning was not just an internal NAVAIR process. It is a comprehensive effort being incorporated in many organizations. Part of this work is mapping of business processes so they can be standardized and replicated. Two processes being documented and modeled are site surveys and the preparation of maintenance functional analyses. An MFA is the primary tool for documenting the site survey results. Mr. Bernard mentioned that the U. S. Air Force brought the technical coordination program (TCP) concept to DSCA's and Navy IPO's attention. The TCP gets aircraft post-production support and engineering work accomplished. Other customers who are part of the TCP benefit from the results of aircraft related problems and issues identified under the TCP. The LPIT will provide a template to Navy IPO to be used as a standard for this type of arrangement.

Captain Mike Dougherty then discussed Naval Air Systems Command International Program Directorate (NAVAIR 1.4's) commitments. Regarding third party transfer, the State Department policy is that blanket assurance agreements must be signed by countries in order to participate in the program. Initial efforts have been focused on FMS F/A-18 common parts and the technical data related to those programs. Another NAVAIR commitment is accessibility to U.S. government databases. Accessibility is a complex issue because of the different sites, countries, and individuals involved in the process. Formal initiatives are going on throughout the Department of Defense, and NAVAIR has formed a working group to develop a coordinated, comprehensive approach to solving the problem. Some ongoing efforts involve a test case web site for Joint Aviation Technical Data Integration, the start of the Navy Marine Corps Intranet (NMCI), and the introduction of Defense Logistic Agency's (DLA) weblink. Colonel Selden von der Hoff noted that DLA has made weblink available to FMS customers. This system ties information together and provides a package of data to the customer. Web Customer Account Tracking System (WEBCATS) is not available to FMS customers, but DLA hopes to provide WEBCATS data via WebLINK in the future.

### **Defense Supply Center Richmond (DSCR) Initiatives**

Rear Admiral (Upper Half) Mark Young discussed DSCR initiatives. Defense Supply Center Richmond has been reviewing FMS business processes and best business practices. They are increasing teaming efforts by participating more in LPIT activities and Security Assistance Foreign Representative quarterly meetings.

Initiatives include DLA business systems modernization (BSM), balanced scorecard, and aviation investment strategy (AIS). With BSM there will be a new information technology environment utilizing commercial off-the-shelf (COTS) software. BSM will be coordinated with Balanced Scorecard. Balanced Scorecard is a reengineering effort that will help DLA track itself and its processes. Customer goals, internal process improvements, financial objectives, and growth achievements will be measured and assessed. Admiral Young said \$500 million is being infused into DLA from fiscal year 2000 to fiscal year 2003 under AIS to increase inventories of aviation engines and support items. This effort will reduce backorder problems. Approximately 53 percent of the national stock numbers (NSNs) targeted for AIS have FMS application. The

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AIS working group consists of representatives from inventory control points (ICP), DLA, and the military services. The basic approach is to identify all ICP aviation items and determine the appropriate investment strategies and policies to improve support.

Another DLA initiative is asset tracking to enhance freight forwarder distributions. There are two systems that will improve materiel distribution accuracy – Automated Manifest System (AMS) and COTS software. AMS utilizes bar coding to automate receipt, processing, and handling of materiel. COTS software provides contractors and freight forwarders with real time FMS documentation. The process helps to solve missing or incorrect data elements on forms and labels, identify split shipments, and cross check for misrouting. DLA has an emergency supply operation center to support supply assistance requests for FMS customers the same way it does for U.S Forces, and DLA has backorder release programs that release backorders based on asset position. In addition, DLA encourages the ICPs to release stock for non-cooperative logistics supply support arrangements (non-CLSSA) requisitions to 1/2 the reorder point, not above the reorder point. DLA continues to be more customer focused and customer driven.

### **Naval Inventory Control Point Philadelphia (NAVICP-P) Initiatives**

RADM Mike Finley stated that NAVICP was creating more logistics support packages tailored to win business in the Navy. Part of the NAVICP approach is to use best business solutions with industry and eBusiness opportunities. Admiral Finley wants to ensure that FMS customers are represented when decisions are made regarding obsolescence, third party logistics efforts, and performance based logistics contracts (PBLs). Over 50 PBL initiatives have been implemented and another 150 are on the way. Approximately 50 of the PBLs are meeting or exceeding their objectives.

Challenges in the future include system conversions under systems applications products, working cooperative logistics supply support arrangement issues for FMS customers and knocking down artificial barriers. Admiral Finley noted that eBusiness contracts were progressing in NAVICP; however, many organizations learned that integrating new technology such as business-to-business transactions has not happened as fast as initially anticipated.

### **Navy International Programs Office Initiatives**

RADM Don Newsome discussed Navy International Programs Office priorities and pillars, international initiatives, company days, and their campaign plan. The priorities for Navy IPO are country, Navy, and program. The pillars are people, funding, and communication. The initiatives in Navy IPO are the hybrid arrangement, partnering, improving responsiveness, and improving visibility to FMS customers. Under the hybrid arrangement, the customer has the ability to negotiate his own contract, and the contractor can respond to the request for proposal with a technical proposal. Under the FMS part of the hybrid, there are strict procedures protecting sensitive systems and technologies. Also, the Navy has provisions to recover sustaining engineering and other costs. International partnering includes FMS, direct commercial sales and cooperative programs with an open sharing of Navy ideas. Improved responsiveness includes processing 80 percent of the Letter of Offer and Acceptance within 120 days and having a Navy IPO customer advocate for FMS policy, sales, and program execution. FMS customer visibility has been improved with quality review boards and customer participation in Letter of Request development.

Admiral Newsome added that they have established company days to promote high-level, candid policy, and initiatives discussions between Navy IPO and industry. BAE Systems, Boeing, General Dynamics, ITT, Lockheed Martin, Northrop Grumman, Raytheon, and United Defense have participated. Follow-up meetings are planned with each company. The campaign plan is an

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initiative to contribute to the U. S. and coalition war-fighting capability, assist program managers develop international goals and business plans, provide a short list of selected USN systems and services by system command, and encourage use of FMS or hybrid arrangements. The goal of the campaign plan is to help Navy leadership promote international participation in acquisition programs. Initial efforts include the F/A-18E/F, AH1-Z, V-22, MMA, and the AEGIS weapon system and logistics.

### **Naval Inventory Control Point – International Programs (NAVICP-OF) Initiatives**

CAPT Tom Steffen stated that the FMS Initial Support Tracker had been implemented this year, and that the DLA FMS reserve is being worked. In addition, there are excess defense articles on the web and fourteen new web programs with 30 new functions. NAVICP-OF is now linked to the USAF worldwide redistribution services program.

NAVICP has reduced frustrated shipments by 75 percent and reduced shipped/unbilled requisitions by 86 percent. Customers using PowerTrack<sup>®</sup> have had success processing supply discrepancy report (SDR) return materiel. With PowerTrack<sup>®</sup>, it has been taking only nine days to return SDR materiel from anywhere in the world. PowerTrack<sup>®</sup> is under consideration as a tool to track repair of repairables materiel shipments.

Another NAVICP commitment is repairable item tracking on the web. The Navy uses the commercial asset visibility (CAV) system. Several companies have been approached to participate in the CAV system for FMS customers. This process occurs only at the depots now, not at NAVICP. Companies that provide asset visibility information and reporting will allow NAVICP to relay this information to the FMS customers.

### **Obsolescence Prediction Tools Panel Discussion**

Obsolescence prediction tools (OPTs) were developed in the 1990s and have had continuous support and innovative research from NAVICP. OPTs may be used by both novice and advanced users with web applications. OPTs are still not fully developed. Most commercial prediction tools do not provide solutions with multiple applications across all services.

Panel members said that availability of data, corrupt data, high costs for solutions, and deciding whether to redesign were impediments to solving obsolescence. Another issue is that some original equipment manufacturer technical data is available, but not necessarily what was used during the manufacturing process. Additionally, the original design or company may no longer exist.

Obsolescence is not necessarily related to old age of parts. Obsolescence is inability to perform mission requirements due to lack of suitable parts. One solution is contracting with the original equipment manufacturers to provide technical specifications to another company. Another solution is remanufacturing. Radian Corporation remanufactures obsolete parts in less than 90 days. Radian has reproduced over 700 parts. They create new parts from laser images of sample parts. Radian has teamed with the government and other companies for engineering and testing support to assist with remanufacturing the parts. When Radian retools a part, the newly formatted technical data and equipment goes to the Navy activity that ordered the part.

**Captain Dougherty  
leading LPIT Panel.**



### **Logistics Process Improvement Team Panel**

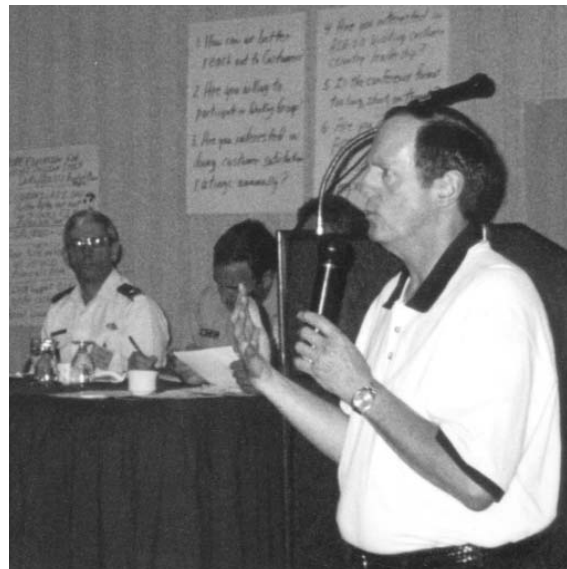
The Logistics Process Improvement Team (LPIT) panel discussed the Performance Based Logistics (PBL) contract role in FMS programs. Many FMS programs will be affected by PBLs because nearly one-third of Navy inventory will be managed under PBLs. The PBL goal is to reduce inventories. PBL may not be applicable for many FMS customers who have already invested in organic depots and warehouses for spares. There are a variety of issues associated with PBL contracts. Each PBL is unique, and there are many different issues for each contract. Specific issues for FMS customers include repair item replacement versus same item returns, changes to Class 2 engineering change proposals, and in-country depot support.

Customers should investigate PBLs contents when they are upgrading their systems, and analyze investment of inventory with/without PBL participation, personnel requirements, and repair costs in-country versus direct exchange under PBL.

A standard clause needs to be developed to identify key points and general requirements for FMS participation in the PBL process. Currently PBLs on a FMS case are transparent to the customer. The source of supply might not be a stocked DoD item on the shelf in the future, but a PBL arrangement. Alternative sources of supply may be offered if economical options are not available through PBL.

### **Industry Issues and Initiatives**

Bill Silvestri from Hamilton Sundstrand Corporation noted that contractors and customers must work together to resolve problems. Good communication is key to this effort. One area that is being worked in the acquisition process is to lower total ownership cost by increasing availability and reliability while reducing inventory and turnaround time. The way to achieve these goals is to improve the processes and insert commercial technology



**Jim Winn of Information Spectrum, Inc.,  
leads a discussion on customer support  
issues.**

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where applicable. Mr. Silvestri said that there are fewer OEMs managing a larger percentage of the business.

Contractors are involved with several types of programs including commercial item contracting, virtual prime vendor, supply chain management (SCM), on-site support, and performance based logistics (PBL). Contractor flexibility is crucial to support FMS customers because the customers often have older versions of aircraft, have organic repair facilities, face import and export restrictions, and have to adjust to domestically mandated acquisition policies. One of the keys to success is embracing acquisition initiatives such as PBL, SCM, and on-site support.

Jay Kappmeier from Boeing Aerospace discussed life cycle customer support (LCCS). LCCS is the process of delivering a capability, not individual services or products. This effort is done through performance based contracting (PBC) with incentives. There is “risk sharing” with both the company and the customer. The PBC is structured with incentives tied to customer defined performance measurements. Some of the tasks are program management, simulator maintenance, supply support, and contractor depot field teams. Performance requirements have incentives and penalties built in.

Regarding support for obsolete aircraft, Boeing talks to customers about the support they need and their requirements. Similarly, with alternative maintenance concepts, Boeing considers different customer capabilities and requirements on a case-by-case basis. For example, a maintenance approach with the USAF might not work for a foreign customer. Mr. Kappmeier also discussed Contractor Logistics Support (CLS). For T-45 CLS, Boeing is the single point of accountability with a five-year firm fixed price contract. They have organizational, intermediate, and depot level aircraft CLS in addition to ground training system CLS.

## **Top Eight Customer Issues**

Many issues and concerns were highlighted throughout the conference sessions. Each customer country cast three votes to determine which eight issues were the highest priorities. Those eight issues were then discussed in separate working groups. After the working groups finished their discussions, facilitators reported their group’s findings to the conference audience.

### **Issue #1 - Communication**

Currently, information channels are inconsistent and unpredictable. There seem to be filters and bottlenecks with information. Ideally, a “clearing house” with consistent content, channels, and distribution would exist to provide information to customers. To achieve this, the services need to define or redefine their information dissemination processes; identify ownership of information; and identify the information needed by customers during meetings, seminars, and conferences.

### **Issue #2 - DLA Involvement in CLSSA Cases**

Customers have experienced problems with CLSSA cases that require DLA managed assets. The military departments (MILDEPS) manage the cases then transfer dollars to DLA after obligation authority has been granted. DLA receives no FMS administrative funds to manage the CLSSA cases. DLA does not have an FMS automated information system and cannot program demands.

Ideally, the MILDEPS would pass the dollars and forecasted demand to DLA. Proposed improvements include creating DLA cases with MILDEP accounting and program management;

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writing memorandums of understanding (MOU) to identify the funding, and formalize roles, expectations, and goals; and hiring DLA customer support representatives at the ILCOs.

### **Issue #3 - Performance Based Logistics (PBL) Contracts**

Currently, the Navy uses PBL contracts as a best business practice. Major weapon systems with high repair costs have become candidates for PBLs. There are various forms of PBLs for spares and repairs. PBLs utilize contractor support for parts and repairs vice MILDEP indigenous support. At NAVAIR, PBLs are done system by system and sometimes by total aircraft. Customers don't understand PBLs and how these domestic contracts will affect FMS support. Customers need visibility in the PBL process.

Ideally, customers should look at items they are repairing and decide their PBL needs. Customers want their requirements rolled in with domestic requirements. If an FMS customer agrees to join the PBL contract, they must be included in contract development and discussion. Involve the FMS customer from the beginning, and consult with them regarding what to include in the PBL. The system can be improved by notifying customers which systems are being considered for PBLs and doing business case analyses.

### **Issue #4 - Price Increases**

Customers have been experiencing rapid price increases across the board. Production lines have been shut down resulting in obsolete equipment and fewer parts and repair services. As time passes, there are fewer purchasers and owners of this equipment.

Ideal solutions include combining purchases within the services and among customers; establishing incentives and possible long term fixed contracts with contractors; improving communication regarding purchases; forecasting customer demand; and setting up contracts with options to purchase production rights. Military departments may achieve these solutions by ensuring multi-service buys take place, making excess defense articles purchases easier, establishing regional repair sites, forecasting better, and promoting worldwide redistribution services.

### **Issue #5 - Customer Participation**

There is a lack of dialogue among contractors, government FMS offices, and customers. Customers get involved too late to influence the process. Participation varies within the military departments and among customers.

Customers want increased participation in the letter of offer and acceptance and contracting processes. They want to open communication and know all the players. Military departments can increase participation by instituting a feedback mechanism, developing and promoting conferences, and targeting high impact customers.

### **Issue #6 - Partnership Program/Marketing FMS in Countries**

Industry, military departments, and customer countries need to better understand each other. Industry markets aggressively despite having minimum knowledge of FMS customers. Customers do not receive full cost data or business plans for equipment.

Ideally, there would be military departments international teams to disseminate information; participation from foreign industry; and different options available for obtaining and maintaining

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equipment. In order to achieve these goals, military departments need to establish a core team; find a way to size the market; and publicize FMS metrics on individual platforms.

### **Issue #7 - Expanding LPIT Process to all services, DLA, and Naval Sea Systems Command**

Currently, other services, DLA, and Navy Sea Systems Command do not have process improvement teams. NAVAIR is the only activity providing a forum for program managers, DLA and industry representatives, and customers to identify and solve FMS customer issues. Ideally, other services and activities would establish similar groups that conduct quarterly meetings, maximize customer participation, and work together to solve problems.

### **Issue #8 - Backorders**

Items may remain on backorder for several months. DLA and NAVICP have made progress to reduce backorders over the last year. DLA reviewed non-CLSSA backorders, but still has problems with type 5 backorders. DLA is constrained because they cannot forecast buys for FMS requirements. Non-CLSSA requisitions may not be released unless stock levels are at reorder point plus one. DSC Columbus changes type 5 backorder to type 1 backorder at 120 days (max) or lead time of record (if <120 days). All ICPs will use this logic in the future.

Ideally, a web-based material obligation validation system would be developed; non-CLSSA demands would be forecasted; realistic estimated shipping dates would be provided on supply status documents; and metrics would be developed to compare FMS support with domestic support. Working group solutions included reviewing blanket order case requisitions greater than procurement lead time; identifying items on backorder for commercial buying service or alternate sources; new status/advice codes; prioritizing and expediting key backorder items; and creating prime vendor arrangements.

### **Conclusion**

As the conference closed, Steve Bernard stated that the LSC needed to focus on customers' priority issues. These issues need to be turned into measurable, achievable commitments with a clear understanding of who is doing the work and how it will be achieved. Bernard also presented LPIT improvement questions to the conference attendees. The questions were related to reaching out to customers, participating in working groups, customer satisfaction ratings, Naval Air Systems Command Logistics Directorate visiting customer countries, conference format, and connection to the program management database. The responses will be used to enhance the Naval Aviation FMS LPIT process.

This conference facilitated education, innovation, and refocusing FMS customers' requirements. Customers noted that the annual conference is productive, helpful, and customer-oriented. FMS customers have recommended the other services create similar Process Improvement Teams to address customer concerns and solve problems.

### **About the Author**

Lieutenant Paul Dougherty is a Navy Supply Corps Officer and logistics and process instructor at DISAM. Before his assignment to DISAM, he served aboard the aircraft carrier USS JOHN C. STENNIS (CVN 74). He holds Bachelor of Science and Master of Business Administration degrees from the State University of New York at Buffalo. He can be reached at (937) 255-8195, or [Paul.Dougherty@disam.dsca.osd.mil](mailto:Paul.Dougherty@disam.dsca.osd.mil).

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# **Logistics/Customer Support Course (SAM-CS)**

## **Warsaw, Poland, September 2001**

**By**

**Colonel Karen W. Currie, USAF**  
**Defense Institute of Security Assistance Management**

A DISAM Mobile Education Team (MET) presented the Logistics/Customer Support Course (SAM-CS) during the week of September 24, 2001, in Warsaw, Poland. The Foreign Services Division, Armed Forces Procurement Department, Republic of Poland's Ministry of National Defence hosted the course. This course is specially designed to meet the needs of DoD personnel and international customers handling logistics and transportation issues related to foreign military sales. Members of the DISAM instructor team were Dr. Craig Brandt, USAF Colonel Karen Currie, and Robert Hanseman.

On the first morning of the course, Major General Jaroslaw Bielecki, Polish Army, greeted the students and DISAM instructors on behalf of the Ministry of Defence. The students represented many organizations in Poland, including the Army, Navy, Air Force, Officers' College, Naval Academy, Ministry of Finance, Ministry of Transportation and Maritime Economy, and Air Cargo Poland, Ltd., as well as the Ministry of Defence.



**Major General Jaroslaw Bielecki, Polish Army, greeting the students and DISAM instructors.**

**Bob Hanseman lectures the logistics customer service class at the Ministry of Defense.**



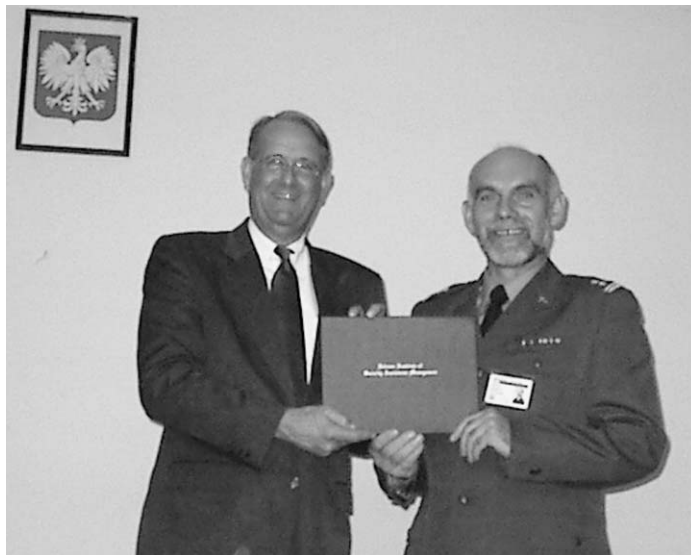


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Thirty-two students completed the course and received their certificates in a graduation ceremony presided over by Polish Army Colonel Pavel Novak, Director of the Armed Forces Procurement Department. The exchange of compliments and gifts included the presentation of plaques and books highlighting the Polish military and Polish and American landmarks.

Special assistance to the DISAM instructor team was provided by Janusz Goczynski, Principal Specialist, Foreign Services Division. Other members of the Foreign Services Division supported the DISAM team, including Polish Navy Commander Jacek Herc, Lieutenant Commander Krzysztof Polakowski, and Polish Air Force Lieutenant Colonel Robert Lipiec. Captain David Paynter, USAF, and Malgorzata Fedor of the U.S. Office of Defense Cooperation in Warsaw were responsible for the course planning and support, and served as liaison officers for the DISAM instructors. The DISAM team especially wishes to thank Ms. Fedor for her gracious assistance and kindness during their stay in Warsaw.

**Colonel Karen Currie, Craig Brandt, Bob Hanseman, Lieutenant Colonel Robert Lipiec and Colonel Pavel Novak during the closing ceremonies for the course.**



**Dr. Craig Brandt presents a graduation certificate to Lieutenant Colonel Robert Lipiec of the Foreign Services Division.**

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# **Security Assistance Planning and Resource Management (SAM-P) Course Tirana, Albania, September 17, 2001**

**By**

**Major Dennis M. Olson, USA  
Defense Institute Of Security Assistance Management**

DISAM recently completed its first mobile education team (MET) course in Albania. During the week of September 17, 2001, the three-person DISAM team consisting of Virginia Caudill, Director of Management Studies, Bob Hanseman, Associate Professor, and MAJ Dennis Olson, Deputy Director of International Studies conducted a Security Assistance Planning and Resource Management (SAM-P) Course in Tirana. The class of twenty students, representing primarily the Ministry of Defense and the General Staff, included directors and staff from the Ministry of Finance, the Public Procurement Directorate, and the military services as well.



**Security Assistance Planning and Resource Management (SAM-P) Class held at Tirana, Albania on September 17, 2001.**

Ambassador Joseph Limprecht and Brigadier General Pëllumb Qazimi, Chief of the General Staff of the Albanian Armed Forces set the stage for penetrating questions and lively discussions that thoroughly examined the world of security cooperation, foreign military financing (FMF) and international military education and training programs. In terms of democracy, Albania has a brief and turbulent history since the fall of communism. However, since the crisis of 1997, the government has endeavored feverishly at tackling the multitude of challenges that beset this little-known country. Security assistance has played, and will continue to play a crucial role in this progress.



A country renowned for its hospitality, the warmth displayed by each and every Albanian encountered during the 10-day stay clearly illustrated this to be one tradition that steadfastly endures. From the introductory office calls with Brigadier General Qazimi, Colonel Sula, Director of Logistics, and Lieutenant Colonel Kara, Director of Finance to the dinner hosted by Colonel Hudhra, Director of Defense Planning and Policy, everyone expressed their dismay and disdain for the attacks of September 11th. For the instructors, the centerpiece of this trip was the visits to the 2nd Navy District headquarters in Vlore and the Historic and Ethnographic Museum in Kruja. The latter demonstrated the strength and influence Albania enjoyed in the past while the former served to reinforce the tremendous effect security assistance programs, particularly the excess defense articles program, has had in the transformation of the Albanian armed forces.



**Major Hajro, Albanian General Staff, J5, Elez Shiqerukaj and MAJ Zabrzkeski of ODC Albania.**

The Office of Defense Cooperation in Tirana superbly orchestrated support for the DISAM team. MAJ Michael Zabrzkeski, Elez Shiqerukaj, and Mirela Hoxhallari all contributed directly to the success of this training. Additionally, our lead interpreter and gracious host, Major Agim Hajro of the Albanian General Staff made every effort to insure our stay was comfortable, educational, and most of all, successful.

In conclusion, we are confident that the training objectives set out for this Mobile Education Team were met completely. We are further hopeful that this training will serve to

strengthen the ties of friendship and cooperation between the United States and Albania. DISAM looks forward to return visits to this hidden gem as well as the opportunity to welcome more Albanian students to resident courses in Dayton.



**Sokol Dervishi, Chief of Minister of Defense's Cabinet (left) and Elizabeth Shelton, Deputy Chief of Mission, American Embassy, Tirana (third from left), presented remarks at graduation.**

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## About the Author

Major Dennis M. Olson, Jr. is the seminar director for all European seminars conducted at the Defense Institute of Security Assistance Management. He is a member of the U.S. Army Aviation branch and is qualified to fly the UH-1H, OH-58, and AH-1F helicopters. He is also an Army foreign area officer specializing in Western Europe. Major Olson came to DISAM with nine years of unit and staff experience in Europe and holds a Master of Arts degree in Western European Studies from Indiana University and a Bachelor of Arts degree from the University of Montana. He is a graduate of the U.S. Army Command and General Staff College and the Defense Language Institute where he studied French.

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# ***SECURITY ASSISTANCE COMMUNITY***

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## **Deputy Director of DSCA Retires**

On 16 August 2001, DSCA's deputy director, Bob Keltz, retired in an unusual double ceremony that also marked the retirement from federal service of his wife, Mary Lou McHugh, Assistant Deputy Under Secretary of Defense for Transportation Policy. DSCA Director, Lieutenant General Tome Walters, presided over the ceremony. "Bob is a true professional, and he will be missed," said General Walters. "All of us who worked with him know him to have a sharp mind and a wonderful sense of humor. He has a gift for bringing people together, even while working on the thorniest problems."



Bob Keltz was born in Pittsburgh, Pennsylvania and attended Colorado State University where he was awarded a Bachelor of Science degree in sociology in 1968 and was commissioned a second lieutenant in the United States Army. He subsequently completed a Master of Education degree in 1970 and came on active duty in August of that year as a first lieutenant in the Transportation Corps. After six years of service with the 4th Transportation Brigade in

Oberursel, Germany, he left the Army and joined the civil service where he served in various transportation billets in the Military Sealift Command, the Military Traffic Management Command, and the Army Materiel Command. In 1984, Keltz was selected for the Senior Executive Service and became the first SES Assistant Director for Transportation, Transportation, Energy and Troop Support Directorate, Office of the Deputy Chief of Staff for Logistics, United States Army. He served as Director, U.S. Army Strategic Logistics Agency from July 1990 to July 1992, then Principal Deputy for Logistics, Headquarters, U.S. Army Materiel Command until March 1997. He then assumed the position of Director of International Development and Security Assistance, Office of the Deputy Under Secretary of the Army, International Affairs until his appointment in September 1998 as Deputy Director, Defense Security Cooperation Agency.

During his career, Bob completed the Transportation Officer Basic Course, the program at the Federal Executive Institute, and he is a graduate of the Industrial College of the Armed Forces.

Keltz has received honors and awards including the Senior Executive Service Presidential Rank Awards of both Distinguished and Meritorious Executive, two awards of the Secretary of the Army Decoration for Exceptional Civilian Service, the Secretary of Defense Medal for Meritorious Civilian Service, the National Defense Transportation Association President's Award, designation as a Distinguished Member of the Army's Transportation Regiment, the Army Meritorious Service Medal, the Army Commendation Medal, and membership in Phi Kappa Phi.

Keltz plans a second career representing Sikorsky Helicopters in East Asia.

The entire security cooperation community fondly wishes Bob Keltz all the best in his future endeavors.

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## New Deputy Director at DSCA

Mr. Richard J. Millies assumed his duties as Deputy Director of the Defense Security Cooperation Agency on September 23, 2001. He replaced Bob Keltz who retired. Mr. Millies joins DSCA from the Office of the Deputy Undersecretary of the Air Force for International Affairs where he was the director of policy.

Millies served on active duty as an Air Force officer from 1972 to 1976 and as an Air Force Reserve officer for twenty years. As a reserve officer, he worked within the Office of the Deputy Chief of Staff for Air and Space Operations on politico-military issues associated with arms control, Pacific-East Asia, and regional plans and policies.

Millies has had a long career in government service. He started in government service while going to graduate school when he worked in the National Security Division of the Office of Management and Budget. In 1979 he served as a logistics war planner with the Military Sealift Command. He later worked for the Drug Enforcement Administration as an intelligence analyst and a program evaluator. In 1985, he returned to the Air Force as a civilian foreign disclosure officer in the Office of the Vice Chief of Staff. In 1992, he joined the newly created Air Force Office of International Affairs as chief of the Foreign Disclosure Policy Branch. He later went on to serve as the chief of the Disclosure and Technology Transfer Division. During his career, he has been involved with the development and execution of several international programs in almost every region of the world.



Mr. Millies holds a Master of Science from Georgetown University School of Foreign Service (1978), a Master of Business Administration in finance from Southern Illinois University (1975), and a Bachelor of Arts in political science from Fordham University (1972).

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## The Defense Institute of International Legal Studies Welcomes a New Director

The Defense Institute of International Legal Studies (DIILS) held a change of director ceremony on August 14, 2001 in Newport, RI, and honored the accomplishments of its outgoing director, Commander Burton J. "Buzz" Waltman, Judge Advocate General's Corps, USN. CDR Waltman served as the fourth Director of DIILS, from June 15, 1999 to August 14, 2001. The new Director of DIILS, Colonel Richard A. B. Price, USAF, became the first Air Force officer to be named as director.



**In the front row are Mrs. Richard Price and Mrs. Burton Waltman, and distinguished guests enjoying the festivities during the Change of Directorship.**

Lieutenant General Tome H. Walters, USAF, Director, Defense Security Cooperation Agency (DSCA) was the officiating officer for the change of Director ceremony. Lieutenant General Walters awarded the Defense Meritorious Service Medal to Commander Waltman and recognized Waltman for bringing DIILS to new levels of achievement. The Defense Institute of International Legal Studies is recognized as the leading provider of expanded international military education and training programs in the world, having presented 483 seminars to more than 15,000 participants in 83 nations since its inception in 1992. During Commander Waltman's two-year tenure as director of DIILS, 120 seminars were presented in 40 countries worldwide. CDR Waltman was instrumental in the shift of DIILS from a Navy command under the Naval Justice School to a Joint Agency Activity under DSCA. Under his leadership, DIILS increased its staff by more than fifty percent and its operating budget increased by over two hundred percent to meet its growing mission. Cooperative efforts were initiated with the Center for Civil-Military Relations, the Agency for



**Lieutenant General Walters, Director of DSCA, describes CDR Waltman's accomplishments during his tenure at DIILS.**



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International Development, the Department of Justice, and the International Health Resource Management Program. Commander Waltman also took steps to ensure the continued location of DIILS in Newport, thereby taking advantage of its proximity to major Department of Defense Schools, the United Nations, and civilian institutions of higher learning.



**Colonel Richard Price, the incoming DIILS Director, addresses the audience at the Change of Directorship.**

The future outlook of DIILS is just as bright as its past under the leadership of the new Director, Colonel Richard A. B. Price. Colonel Price has served in nine overseas assignments, including England, Germany, Greece, Guam and three tours in Korea. He has extensive experience in the field of international law and military operations.

Present for the ceremony were many distinguished visitors including: Deputy Judge Advocate General Rear Admiral Michael Lohr, Judge Advocate General's Corps, United States Navy; Brigadier General (select) Kevin Sandkuhler, United States Marine Corps; Brigadier General Richard O'Meara, United States Army Reserve; Dr. Craig Brandt, Acting DISAM Commandant; and Captain Dennis Bengtson, Judge Advocate General's Corps, United States Navy, Commanding Officer, Naval

Justice School.



**Outgoing Director, Commander Burton Waltman shares a moment with incoming Director Richard Price.**

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## **The Defense Institute of Security Assistance Management Welcomes a New Commandant**



Dr. Ronald H. "Ron" Reynolds assumed his duties as the Commandant, Defense Institute of Security Assistance Management on September 14, 2001. Recently retired from the U.S. Air Force after more than 25 years' service, Dr. Reynolds served as Director of Air Force Training at the U.S. Military Training Mission, Riyadh, Kingdom of Saudi Arabia (1996-1998) and Chief of Instruction, International Officer School, Air University, Maxwell AFB, Alabama. In addition to Saudi Arabia, he saw overseas duty in Tegucigalpa, Honduras (1984) and Osan Air Base, Republic of Korea (1988). His other assignments include tours of duty with the Air Force Reserve Officers Training Corps at the University of North Carolina, Officers Training School, and locations including Port Austin Air Force School, Michigan; Keesler Air Force Base, Mississippi; and Peterson Air Force Base, Colorado. His military awards and decorations include the Defense Meritorious Service Medal, Meritorious Service Medal (4 OLC), Air Force Commendation Medal (2 OLC), Joint Service Achievement Medal, and the Air Force Achievement Medal (2 OLC).

Dr Reynolds holds a Doctorate of Public Administration from the University of Alabama (2001), a Master of Public Administration from the University of North Carolina at Charlotte (1995), a Master of Arts in business management from Webster University (1984), and a Bachelor of General Studies from the University of Nebraska at Omaha (1979).

The Commandant's position at DISAM was converted from a military billet to a civilian position following the departure of the previous commandant, COL Judy-Ann Carroll, USA.

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# ***SECURITY ASSISTANCE CALENDAR***

## **Future Meetings Involving the Security Assistance Community**

3-7 December 2001	USEUCOM Security Assistance Training Management Seminar, Stuttgart, Georgia
14-18 January 2002	PACSAC/DCA Conference, Honolulu, Hawaii
28 January - 1 February 2002	U.S. Army IMSO Conference, Quality Inn, Hampton, Virginia
15-19 April 2002	USEUCOM TPMR, Garmisch, Germany
29 April - 3 May 2002	USCENTCOM TPMR, Tampa Florida

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## RESEARCH AND CONSULTATION

Is there a security assistance procedure, requirement and/or program guidance which is (or has been) presenting a significant problem in accomplishing your security assistance function? If so, DISAM would like to know about it. If you have a specific question, we will try to get you an answer. If it is a suggestion in an area worthy of additional research, we will submit it for such research. If it is a problem you have already solved, we would also like to hear about it. In all of the above cases, DISAM will use your inputs to maintain a current “real world” curriculum and work with you in improving security assistance management.

Please submit pertinent questions and/or comments by completing the remainder of this sheet and returning it to:

DISAM/DR  
2335 Seventh Street  
Wright-Patterson AFB OH 45433-7803

or

Data Facsimile Number: DSN 986-4685 or Commercial: (937) 656-4685

or via internet: [research@disam.dsca.osd.mil](mailto:research@disam.dsca.osd.mil).

1. Question/Comment: (Continue on reverse side of this page if required.)

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2. Any Pertinent References/Sources:

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3. Contact Information:

Name \_\_\_\_\_

Address \_\_\_\_\_

Telephone Number \_\_\_\_\_

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4. Additional Background Information: \_\_\_\_\_

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